Mount Gibson Iron

Mount Gibson Iron Limited
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ASX ANNOUNCEMENT

17 August 2016

Results for 2015-16 Financial Year

Key Points

- **Underlying $19.4 million gross profit*** comprising an underlying **$13.4 million** gross profit from continuing operations after administration and finance costs, and a profit of **$6.0 million** from the discontinued Tallering Peak operation.
- **Reported statutory net profit after tax of $86.3 million** (FY2015: $911.4 million loss), including settlement of the property damage component of the Koolan Island insurance claim, and after non-cash net impairment charges of $15.4 million.
- **Full year sales revenue of $240 million** (FY2015: $325 million) on iron ore sales of **5.0 million wet metric tonnes**** (Mwmt) (FY2015: 5.8 Mwmt).
- **Cash, term deposits and liquid investments of $400 million** at 30 June 2016 (30-June-2015: $334 million), including $51 million in insurance settlement proceeds received by year end, with the balance received in July.
- **Total Cost of Goods Sold (COGS) of $44/wmt** Free on Board (FOB) (FY2015: $62/wmt).
- **All-in cash cost^ of $46/wmt** FOB for the year, in line with guidance (FY2015: $62/wmt).
- **Full year cashflow** from operations of **$5.7 million** (FY2015: negative $91.1 million).
- **$86 million** cash settlement agreed for the property damage component of the Koolan Island seawall insurance claim, independent of the business interruption component which is progressing.
- FY2017 sales guidance of **2.8 to 3.1 Mwmt** at an all-in cash cost^ of **$48-52/wmt FOB**.
- Conditional EPA approval recommendation received for the Iron Hill Project, with final approvals targeted by end 2016 to allow production to start in early 2017.

All figures expressed in Australian dollars unless stated otherwise.
** The underlying basis is an unaudited non-IFRS measure that in the opinion of the Directors provides useful information to assess the Company's financial performance.*
***Inclusive of sales from the discontinued Tallering Peak operation.*
^ All-in cash costs are unaudited and are reported FOB including all operating, capital, royalties and head office costs.

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "It was extremely satisfying to return to profitability in 2015-16 in the face of significantly lower iron ore prices and extremely challenging market conditions, through a combination of disciplined cost control, positive operational cashflow, and the very welcome proceeds from settlement of the property damage component of our Koolan Island insurance claim.

"Our ongoing focus on business efficiency was again critical to this result, reducing all in group cash costs by more than a quarter, as was our ability to wring extra value from the now completed Acacia East satellite pit at Koolan Island and even from the closed Tallering Peak site in the Mid West.

"Our ability to extract maximum value remains extremely important as we pursue improved returns on all of our assets while also investigating new resource development opportunities. With iron ore prices having stabilised in recent months, and positive recent indications for the near term development of the Iron Hill deposit near Extension Hill, and in the longer term, for the potential to restart production at Koolan Island, the coming year holds good potential for the Company and its shareholders."

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson** or the **Company**) recorded a statutory net profit after tax for the year to 30 June 2016 of $86.3 million on total sales revenue of $240 million (from continuing and discontinued operations) and ore sales of 5.0 million wet metric tonnes (**wmt**).

The reported gross profit from continuing operations (Extension Hill and Koolan Island) was $34.6 million, compared with a gross operating loss of $17.3 million in the prior year. The underlying gross profit from continuing operations after administration and finance costs was $13.4 million.

The net profit result includes the $86 million settlement proceeds from the property damage component of the Koolan Island insurance claim, and is after non-cash impairments of $15.4 million (net of the write-back of ore and consumables inventories).

Group Summary Results		**Year ended 30 June 2016**	**Year ended 30 June 2015**
Ore tonnes sold[1]	*M wmt*	5.0	5.8
Average realised price, all products[1] (FOB)	*$/wmt*	48.4	55.6
Consolidated sales revenue[1]	*$m*	**240.5**	**324.6**
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue	*$m*	235.2	315.6
Interest income	*$m*	9.7	12.2
Cost of goods sold	*$m*	(213.7)	(341.7)
Impairment write-back/(loss) on ore inventories	*$m*	3.4	(3.4)
Gross profit/(loss) from continuing operations	*$m*	**34.6**	**(17.3)**
Administration and other expenses	*$m*	(19.4)	(32.4)
Finance costs	*$m*	(1.8)	(2.9)
Underlying gross profit/(loss)[2] **from continuing operations after administration and finance costs**	*$m*	**13.4**	**(52.6)**
Other income (including insurance settlement in 2015/16)	*$m*	91.8	7.9
Impairment[3]	*$m*	(25.7)	(944.7)
Profit/(loss) before tax from continuing operations	*$m*	**79.5**	**(989.4)**
Income tax benefit	*$m*	0.8	99.9
Profit/(loss) after tax from continuing operations	*$m*	**80.3**	**(889.5)**
Discontinued Operations (Tallering Peak):			
Sales revenue	*$m*	5.3	9.0
Cost of goods sold	*$m*	(6.2)	(21.1)
Impairment write-back/(loss) on ore and consumables inventories	*$m*	6.8	(7.0)
Tax expense	*$m*	-	(2.8)
Profit/(loss) after tax from discontinued operations	*$m*	**6.0**	**(21.9)**
Net profit/(loss) after tax	*$m*	**86.3**	**(911.4)**

Totals may not add due to rounding.
1. Shown inclusive of the discontinued Tallering Peak operations. Refer the attached financial statements for details.
2. The underlying basis is an unaudited non-IFRS measure that in the opinion of the Directors provides useful information to assess the Company's financial performance.
3. Impairment of mine properties, consumables, property/plant/equipment and deferred acquisition/exploration/evaluation costs.

Realised Pricing

Pricing for the year was softer, particularly in the first half. At the beginning of the financial year the Platts Index for delivery of 62% Fe iron ore fines to northern China was US$59 per dry metric tonne ("dmt") and, following steady weakness to a low of US$38.50/dmt in December and a very brief recovery to US$70/dmt in April, finished the year at US$55/dmt. The average price for the year was US$51/dmt. Compounding these weaker iron ore prices was an exchange rate which averaged the year at $1.00/US$0.728 but was materially higher in the final quarter of the year, averaging $1.00/US$0.745.

Mount Gibson achieved an average realised price for standard iron ore fines product for the year of US$34/dmt Free On Board (**FOB**) after grade and provisional pricing adjustments and penalties for impurities. This price, which excludes sales of medium grade material from the Acacia East satellite pit on Koolan Island, compares with an average of US$54/dmt achieved in the previous 2014/15 financial year. The weighted average realised price received for all products sold during the 2015/16 financial year was $48/wmt FOB, compared with $56/wmt in the previous year.

Cashflow Summary

Despite the challenging 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% to $44/wmt FOB from $62/wmt FOB in the prior year. This was driven by a significant reduction in all-in group cash costs[1] to $46/wmt FOB for the year, at the bottom end of guidance.

The business generated operating cash flow of $5.7 million plus interest receipts of $9.8 million and surplus asset sale proceeds of $4.5 million, a significant improvement compared with negative operational cashflow of $91.1 million in the prior year during which performance was severely impacted by the failure of the Main Pit seawall at Koolan Island.

This cashflow, combined with the receipt of $51.1 million of the settlement proceeds from the property damage component of the Koolan Island insurance claim (including the $1.85 million interim payment received in mid-2015), enabled the Company to increase its cash reserves and liquid investments by $66.1 million to $400.1 million at year end. The remaining $34.6 million of the insurance claim settlement proceeds was received subsequent to the end of the year in July.

Operations

The Company's Extension Hill mine in the Mid West again performed strongly in 2015/16, recording ore sales of 3.4 Mwmt and achieving an average all-in site cash cost of $46/wmt for the year, in line with guidance.

As previously indicated, Mount Gibson expects to complete mining operations in the current Extension Hill pit early in the December quarter of 2016, with sales from the current pit expected to conclude in early 2017 by which time the Company plans to have secured approvals for development of the adjacent Iron Hill deposit, located 3km south of the Extension Hill Main Pit. In the event that a gap between ore sales from the Extension Hill pit and Iron Hill appears likely, Mount Gibson will evaluate the financial merits of selling ore from existing low grade stockpiles, totalling approximately 3.5 Mwmt of material grading 50-55% Fe, until Iron Hill material is available.

Encouragingly, in July 2016, the Office of the Environmental Protection Authority of Western Australia released a positive conditional recommendation for Iron Hill, which was open for public comment until 1 August 2016. The timing of a final determination remains subject to the outcome of any appeals lodged during the public comment period. Mount Gibson also continues to progress other necessary regulatory requirements for Iron Hill.

Mount Gibson continually reviews 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 mine cashflows as well as to historical fixed infrastructure and transport obligations that would become payable on early closure. These obligations, which reduce with cumulative sales tonnage, totalled approximately $15 million at 30 June 2016.

In the final quarter of the year, Mount Gibson also monetised some remnant material remaining at the closed Tallering Peak mine site. These opportunistic sales, totalling 125,000 wmt of low grade lump material, generated a modest cash margin and assisted with environmental rehabilitation at the Tallering Peak mine site. Final site rehabilitation and environmental monitoring activities remain ongoing.

[1] All-in group cash costs are unaudited and are reported FOB including operating expenditure, royalties, capital expenditure and corporate costs.

Consistent with the Company's stated strategy, the extended mining campaign at the Acacia East satellite pit at Koolan Island was successfully completed in February 2016, followed by final sales from Koolan Island in March 2016. The site has since been transitioned to care and maintenance, pending the outcome of the ongoing evaluation into the potential to rebuild the Main Pit seawall and resume production. Ore sales from Acacia East totalled 1.5 Mwmt in 2015/16, at an average all-in site cash cost[2] for Koolan Island of $37/wmt FOB for the full year, inclusive of the care and maintenance costs incurred in the final quarter. This was slightly better than guidance reflecting solid operational performance on site.

Koolan Island seawall insurance claim

In June 2016, Mount Gibson reported the successful settlement of the property damage component of the Koolan Island seawall insurance claim for $86 million. This amount included the interim payment of $1.85 million made by the Company's insurers in mid-2015 and, by 30 June 2016, the Company had received $49.6 million of the balance. The remainder of the settlement amount was fully received from the Company's insurers in July. Mount Gibson retains substantial carry-forward tax losses and other available tax deductions, and therefore does not expect any tax outflow on the settlement proceeds.

The settlement is independent of any decision the Group may take to rebuild the Main Pit seawall and is also separate to the ongoing discussions between Mount Gibson and its insurers in relation to the 12 month business interruption component of the insurance claim. The full value of the business interruption claim is yet to be quantified by the insurers and will be assessed subject to any relevant policy and limitations. These discussions remain in progress and it is premature to comment as to the likely outcome of this component of the claim.

Impairment

As a result of the continued weakness in iron ore prices, notably in the first half of the financial year, the Group recorded a net impairment expense of $15.4 million for the 2015/16 financial year. This expense comprises impairments of consumables inventories (by $8.1 million including obsolescence adjustments), mine properties (by $2.1 million), deferred acquisition, exploration and evaluation assets (by $3.0 million) and property, plant and equipment (by $12.4 million), net of the write-back of previously-impaired iron ore inventories which were sold or contracted for future sale during the year (by $3.4 million for continuing operations and by $6.8 million for discontinued operations).

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 reserves for value-accretive investments. The Board has determined the following key business objectives for the 2016/17 financial year:

- **Extension Hill** - finalise necessary regulatory government approvals for the development of the Iron Hill deposit to extend production beyond the current end of the reserve life.
- **Koolan Island** – maintain the site on care and maintenance, and undertake the detailed work required to assess the viability of reinstating the Main Pit seawall and recommencing production.
- **Koolan Island seawall insurance claim** - progress and finalise the business interruption component of the claim.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** – maintain the increased yield on the Group's cash reserves.
- **Growth projects** - continuation of the search for business development opportunities in the resources sector.

In relation to Koolan Island, all activity is now focused primarily on the ongoing evaluation of the potential to reinstate the Main Pit seawall and recommence production. Geotechnical drilling at the Main Pit seawall to provide technical data for the evaluation of potential rebuild options was completed in January 2016. Mount Gibson has now committed $1.5 million to undertake detailed design for the seawall, and mine design and production scheduling to achieve a material reduction in the average strip ratio and also a marked

[2] All-in site cash costs are unaudited and are reported FOB including royalties and capex but are before corporate cost allocations.

increase in product grade. Mount Gibson expects to conclude this detailed evaluation work in the March 2017 quarter.

Based on preliminary work to date and taking into account recent mining history at Koolan Island, Mount Gibson considers it would need to have confidence that the project could achieve the following key technical and operating parameters:

- Main Pit seawall reinstated in a safe and economically feasible manner;
- total redevelopment capital and restart costs of less than $90 million;
- sufficient Ore Reserves to support production of at least 15 million tonnes of hematite over a period of 3–4 years, grading above 62% Fe;
- an average life of mine strip ratio less than 3:1; and
- total material movement costs of less than $7/tonne moved.

The Company has yet to establish whether it can reasonably achieve these key parameters but, based on historical mining performance, believes it is sensible to continue with its assessment of this potential opportunity. However, until such time as Mount Gibson has completed the detailed engineering design and capital estimates for reconstruction of the Main Pit seawall, and obtained confirmation that all other potential requirements for development can be met, it is not possible to state that a viable redevelopment plan is achievable.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects its annual sales for the 2016/17 financial year to be between **2.8 and 3.1 Mwmt** of iron ore at an average all-in group cash cost of **$48-52/wmt FOB**, equivalent to **US$36-39/wmt** at an exchange rate of $1.00/US$0.75. The Company expects all-in site cash costs at Extension Hill to remain in a range of $44-46/wmt for the 2016/17 financial year. Assuming development of Iron Hill proceeds as planned in the period, one-off development capital costs of approximately $2-3 million are anticipated for construction of a haul road and mine pre-stripping. Operational costs and product grades at Iron Hill are expected to be consistent with current operations at Extension Hill.

Product sales will comprise approximately 2.0 Mwmt of standard ore from the current Extension Hill pit, with the remainder expected to comprise a mix of lower grade material from existing stockpiles, which presently total approximately 3.5 Mwmt of material grading 50-55% Fe, and higher grade material from Iron Hill.

Total sales volumes and actual product mix in the first half of calendar 2017 will depend on receipt of final development approvals for Iron Hill, and the timing of production. The early closure obligations relating to transport arrangements at Extension Hill, referred to above, will be fully amortised once it has railed 15 million tonnes on its contracted rail paths. These obligations amortise at a rate of approximately $6/wmt of material railed.

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 2016 financial year.

The Appendix 4E and financial statements are attached.

For further information:

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Chief Executive Officer	Empeiros Advisory	
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Mount Gibson will host an analysts/institutions teleconference at **10.30am AEST** on **17 August 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).

APPENDIX 4E

MOUNT GIBSON IRON LIMITED
30 JUNE 2016 ANNUAL FINANCIAL STATEMENTS

This Full Year Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A

17 August 2016

Current Reporting Period:	Year ended 30 June 2016
Previous Corresponding Period:	Year ended 30 June 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Consolidated Entity	Movement	A$ million
Revenue from ordinary activities (excluding discontinued operations)	Down 25% to	$244.9
Profit/(Loss) from continuing operations before tax	Up (108)% to	$79.5
Net profit/(loss) after tax attributable to members of the Company	Up (109)% to	$86.3

DIVIDENDS

No final dividend has been declared.

NET TANGIBLE ASSET BACKING

Consolidated Entity	Unit	30 June 2016	30 June 2015
Net tangible assets excluding Mine Properties	*A$ mill*	$391.9	$302.4
Fully paid ordinary shares on issue at Balance Date	*#*	1,091,279,435	1,090,805,085
Net tangible asset backing per issued ordinary share as at balance date	*c/share*	35.9 cents	27.7 cents

DETAILS OF ENTITIES OVER WHICH CONTROL WAS GAINED OR LOST DURING THE PERIOD

The Group incorporated a new wholly-owned subsidiary named KIO SPV Pty Ltd (ACN 609 554 672) during the year.

STATUS OF AUDIT

This full-year report is based on accounts that have been audited.

COMMENTARY

This report should be read in conjunction with the attached financial statements for the year ended 30 June 2016 together with any public announcements made by Mount Gibson Iron Limited during and after the year ended 30 June 2016 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules.

Mount Gibson Iron

MOUNT GIBSON IRON LIMITED AND CONTROLLED ENTITIES

ABN 87 008 670 817

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2016

Financial Report

For the year ended 30 June 2016

Directors' Report

Your Directors submit their report for the year ended 30 June 2016 for Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the consolidated entity incorporating the entities that it controlled during the financial year ("**Group**").

DIRECTORS

The names and details of the Company's Directors in office during the financial period and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Lee Seng Hui LLB (Hons)
Chairman, Non-Executive Director

Mr Lee was appointed as a Non-Executive Director on 29 January 2010, Non-Executive Deputy Chairman on 14 December 2012, and Chairman on 18 February 2014. Mr Lee graduated with Honours from the University of Sydney Law School. Mr Lee is the Chief Executive and an Executive Director of Allied Group Limited and Allied Properties (H.K.) Limited both of which are listed on the Hong Kong Stock Exchange. He is also the Chairman and a Non-Executive Director of Tian An China Investments Company Limited and a Non-Executive Director of APAC Resources Limited, one of Mount Gibson's substantial shareholders. Mr Lee was previously a Non-Executive Director of Tanami Gold NL.

Alan Jones CA
Independent Non-Executive Director

Mr Jones was appointed as an Independent Non-Executive Director on 28 July 2006 and is the current Chairman of the Nomination, Remuneration and Governance Committee. Mr Jones is a Chartered Accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. He is a Non-Executive Director of Mulpha Australia Ltd, Sun Hung Kai & Co Ltd (Hong Kong), Allied Group Ltd (Hong Kong), Allied Properties (H.K.) Limited and Air Change International Limited.

Li Shaofeng B.Automation
Non-Executive Director

Mr Li was appointed as a Non-Executive Director on 23 February 2012. Mr Li has extensive experience in the management of and investments in various listed companies, sino-foreign joint ventures and steel industry entities. He holds a bachelor degree in Automation from University of Science and Technology Beijing. He is the vice chairman and managing director of Shougang Holding (Hong Kong) Limited. Mr Li is an executive director and the managing director of Shougang Concord International Enterprises Company Limited, the chairman of each of Shougang Fushan Resources Group Limited, a substantial shareholder of Mount Gibson, Shougang Concord Century Holdings Limited, Shougang Concord Grand (Group) Limited and Global Digital Creations Holdings Limited, and an executive director of BeijingWest Industries International Limited, all of which are companies listed on the Hong Kong Stock Exchange. He is also a non-executive director of China Dynamics (Holdings) Limited (formerly known as Sinocop Resources (Holdings) Limited), a Hong Kong listed company.

Russell Barwick Dip.Min.Eng., FAICD, FAusIMM
Independent Non-Executive Director

Mr Barwick was appointed as an Independent Non-Executive Director on 16 November 2011 and is Chairman of the Operational Risk and Sustainability Committee. Mr Barwick is a mining engineer with 43 years of technical, operational, managerial and corporate experience in international mining companies covering various commodities. He has worked for Bougainville Copper Limited (CRA), Pancontinental Mining Ltd (Jabiluka Uranium) and CSR Limited (coal). He spent 17 years with Placer Dome Asia Pacific in key development, operational and corporate roles in numerous countries culminating in his appointment as Managing Director of Placer Niugini Ltd. He then served as Managing Director of Newcrest Mining Limited (2000 to 2001). For the four years to the end of 2006, Mr Barwick was the Chief Operating Officer of Wheaton River Minerals Ltd and Goldcorp Inc., based in Vancouver, Canada. He was subsequently the Chief Executive Officer of Canada-based Gammon Gold Inc. before returning to Australia in 2008. He is currently the Chairman of Red Metal Ltd.

Simon Bird B.Acc.Science (Hons) FCPA, FAICD
Lead Independent Non-Executive Director

Mr Bird was appointed as an Independent Non-Executive Director on 23 February 2012. Mr Bird is the Lead Independent Director and Chairman of the Audit and Financial Risk Management Committee. Mr Bird has 30 years of international corporate experience, including holding the positions of General Manager Finance at Stockland Limited, Chief Financial Officer of GrainCorp Limited, and Chief Financial Officer of Wizard Mortgage Corporation. He was also Chief Executive Officer of ASX-listed King Island Scheelite Limited, a former Managing Director of Sovereign Gold Limited, a former Chairman of Rawson Resources Limited and a former Director of CPA Australia Limited. Mr Bird is currently a director of ASX-listed company Pacific American Coal Limited.

Professor Paul Dougas B.Eng (Chem), M.Eng.Science, FAICD, CEng., Hon Fellow Engineers Australia
Independent Non-Executive Director

Professor Dougas was appointed as an Independent Non-Executive Director on 16 November 2011 and is Chairman of the Contracts Committee. He has 40 years of design, process, project engineering, managerial, commercial and corporate experience having commenced his career in the Melbourne & Metropolitan Board of Works before joining engineering firm Sinclair Knight Merz ("**SKM**") in 1978. From initial technical roles, he assumed leadership roles in Sydney before returning to Melbourne as Associate Director and Victorian Branch Manager in 1985. In 1995 he was appointed Managing Director Elect and Director of Marketing before becoming Chief Executive Officer and Managing Director in 1996. For the following 15 years, he led a significant expansion of SKM locally and internationally involving more than 50 local and international acquisitions. Professor Dougas was a Non-Executive Director of ConnectEast Ltd from 2009 until its takeover in September 2011 and was also on the SKM Board from 1990 until 2011. He is currently Chairman of the Global Carbon Capture and Storage Institute, Non-Executive Director of Epworth Healthcare and a former Non-Executive Director of Beacon Foundation and Calibre Group Limited.

Andrew Ferguson
Alternate Director to Lee Seng Hui

Mr Ferguson was appointed Alternate Director to Lee Seng Hui on 24 September 2012. Mr Ferguson is Chief Executive Officer and an Executive Director of APAC Resources Ltd, one of Mount Gibson's substantial shareholders. Mr Ferguson holds a Bachelor of Science Degree in Natural Resource Development and worked as a mining engineer in Western Australia in the mid 1990's. He has 15 years of experience in the finance industry specialising in global natural resources. In 2003, Mr Ferguson co-founded New City Investment Managers in the United Kingdom. He was the former co-fund manager of City Natural Resources High Yield Trust, and managed New City High Yield Trust Ltd and Geiger Counter Ltd. He has also worked as Chief Investment Officer for New City Investment Managers CQS Hong Kong. Mr Ferguson is a former Non-Executive Director of Metals X Limited and ABM Resources NL, both of which are listed on the Australian Securities Exchange.

COMPANY SECRETARY

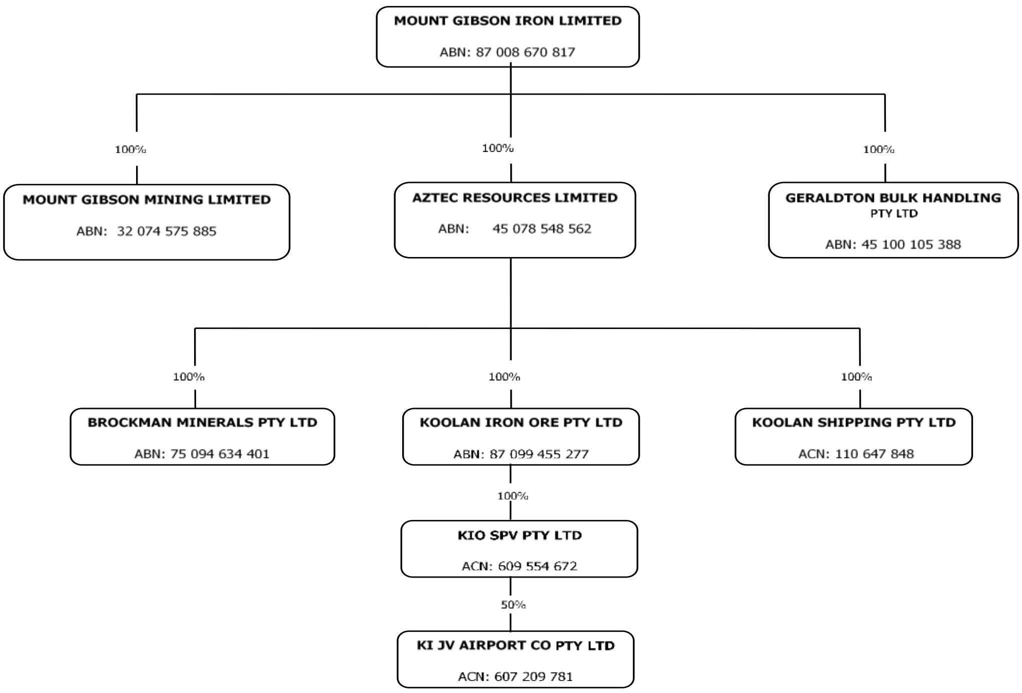
David Stokes B.Bus, LLB, ACIS
Company Secretary & General Counsel

Mr Stokes was appointed Company Secretary and General Counsel on 2 April 2012. He is a corporate lawyer with a diverse range of mining and governance experience having worked at a corporate and operational level in the energy and resources sectors for over 19 years. Prior to joining Mount Gibson, Mr Stokes was General Counsel and Company Secretary at Gindalbie Metals Limited, Corporate Counsel for Iluka Resources Limited and Resolute Mining Limited, and has also worked in private practice for a number of years.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the Group as at 30 June 2016 was as follows:



Nature of Operations and Principal Activities

The principal activities of the entities within the Group during the year were:

- mining and shipment of hematite iron ore at Koolan Island in the Kimberley region of Western Australia;
- mining of hematite iron ore deposits at the Extension Hill mine site in the Mid-West region of Western Australia and haulage of the ore via road and rail for sale from the Geraldton Port; and
- exploration and development of hematite iron ore deposits at Koolan Island and in the Mid-West region of Western Australia.

Employees

The Group employed 126 employees (excluding contractors) as at 30 June 2016 (2015: 213 employees).

OPERATING AND FINANCIAL REVIEW

Introduction

The Board presents the 2015/16 Operating and Financial Review which has been prepared to provide shareholders with a clear and concise overview of Mount Gibson's operations, financial position, business strategies and prospects. This review also provides a summary of the impact of key events which occurred in 2015/16 and the material business risks so that shareholders can make an informed assessment of the results and prospects of the Group.

The review complements Mount Gibson's financial statements for the year ended 30 June 2016 and has been prepared in accordance with Regulatory Guidance 247 published by the Australian Securities and Investments Commission ("**ASIC**").

Overview of the 2015/16 Financial Year

Although the Group's financial performance for the year ended 30 June 2016 was adversely impacted by weaker iron ore prices compared with the previous year, the Company's management and operating teams continued to implement their planned strategies at both the Extension Hill and Koolan Island mine sites to achieve strong sales and further unit cost reductions over the year. In addition, the Company successfully settled the property damage component of its insurance claim arising from the late-2014 failure of the Koolan Island Main Pit seawall. As a result, the Company ended the year in a very robust financial position.

At the beginning of the year the Platts Index for delivery of 62% Fe iron ore fines to northern China was US$59 per dry metric tonne ("**dmt**") and, following steady weakness to a low of US$38.50/dmt late in the first half and a very brief recovery to US$70/dmt in April, finished the year at US$55/dmt. The average price for the year was US$51/dmt. Compounding these weaker iron ore prices was an exchange rate which averaged the year at A$1.00/US$0.728 but was materially higher in the final quarter of the year, averaging A$1.00/US$0.745.

Group ore sales totalled 5.0 million wet metric tonnes ("**Mwmt**") for the year reflecting a steady operational performance at Extension Hill and the Acacia East satellite pit at Koolan Island, as well as sales of low grade remnant material from the closed Tallering Peak mine site late in the year. The Extension Hill operation performed well and, as planned, the Koolan Island operation was placed onto care and maintenance upon completion of the final shipments of mined material from the Acacia East satellite pit in April 2016. Work at Koolan Island is now focused upon the evaluation of the potential to reinstate the seawall and recommence production.

Total sales revenue in the 2015/16 financial year was $240,534,000 comprising $235,188,000 from continuing operations at Extension Hill and Koolan Island, and $5,346,000 from the discontinued Tallering Peak operation. Mount Gibson achieved an average realised price for standard iron ore fines product for the year of US$34/dmt Free On Board ("**FOB**") after grade and provisional pricing adjustments and penalties for impurities. This price, which excludes sales of medium grade material from the Acacia East satellite pit on Koolan Island, compares with an average of US$54/dmt achieved in the previous 2014/15 financial year. The weighted average realised price received for all products sold, on a wet tonnes basis, was $48/wmt FOB, compared with $56/wmt in the previous year.

Cost reduction initiatives resulted in the Company's average cost of goods sold for its continuing operations (including non-cash costs but before impairments and impairment write-backs) reducing significantly from $62/wmt FOB in the 2014/15 financial year to $44/wmt FOB in the 2015/16 financial year.

Cashflow from operations for the year totalled positive $5,653,000 being a significant improvement on the previous financial year's operational cashflow of negative $91,099,000 which reflected the severe adverse impacts of the Koolan Island Main Pit seawall failure in late 2014.

Towards the end of the 2015/16 financial year, the Company also reported the successful settlement of the property damage component of the Koolan Island seawall insurance claim for $86,000,000. This amount included the interim payment of $1,850,000 made by the Company's insurers in mid-2015 and, by 30 June 2016, the Company had received $49,592,000 of the balance. The remainder of the settlement amount was fully received from the Company's insurers in July 2016.

The Group's total cash reserves, including term deposits and tradeable investments, as well as the insurance settlement proceeds received by year-end, totalled $400,087,000 as at 30 June 2016, an increase of $66,084,000 over the balance of $334,003,000 as at 30 June 2015.

Operating Results for the Financial Year

The summarised operating results for the Group for the year ended 30 June 2016 are tabulated below:

Year ended:		30 June 2016*	30 June 2015*	30 June 2014	30 June 2013	30 June 2012**
Net profit/(loss) before tax	*$'000*	**85,536**	**(1,008,505)**	**163,698**	**128,440**	**224,621**
Taxation benefit/(expense)	*$'000*	761	97,083	(67,345)	28,902	(62,605)
Net profit/(loss) after tax	*$'000*	**86,297**	**(911,422)**	**96,353**	**157,342**	**162,016**
Earnings/(loss) per share	*cents/share*	7.91	(83.56)	8.84	14.45	14.96

* The figures for net profit/(loss) before tax and taxation benefit/(expense) for the years ended 30 June 2016 and 2015 are shown inclusive of discontinued operations. Refer the attached financial statements for further details.

** Restated to reflect adjustments made on the adoption of AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*.

Consolidated quarterly operating and sales statistics for the 2015/16 financial year are tabulated below:

Consolidated Group	Unit	Sept Quarter 2015	Dec Quarter 2015	Mar Quarter 2016	Jun Quarter 2016	2015/16	2014/15
Mining & Crushing							
Total waste mined	*kwmt*	1,763	2,362	684	486	**5,295**	16,630
Total ore mined#	*kwmt*	1,510	1,882	1,583	1,001	**5,976**	5,876
Total ore crushed	*kwmt*	1,294	1,540	1,384	962	**5,180**	5,394
Shipping/Sales*							
Standard DSO Lump	*kwmt*	549	962	781	478	**2,770**	2,708
Standard DSO Fines	*kwmt*	513	558	765	240	**2,076**	2,783
Low Grade DSO	*kwmt*	-	-	-	125	**125**	58
RSP	*kwmt*	-	-	-	-	**-**	287
Total	*kwmt*	1,061	1,520	1,547	843	**4,971**	5,836
Ave. Platts 62% Fe CFR northern China price	*US$/dmt*	**55**	**47**	**48**	**56**	**51**	**72**
MGX Free on Board (FOB) average realised fines price^	*US$/dmt*	**40**	**35**	**27**	**37**	**34**	**54**

kwmt = thousand wet metric tonnes

US$/dmt = USD per dry metric tonne

\# Includes low-grade ore at Extension Hill with grading 50-55% Fe that is considered to be saleable. This material is being stockpiled for future sale but continues to be treated as waste for accounting purposes.

* Includes mine gate sales totalling 72kwmt of DSO lump and 34kwmt of DSO fines in 2014/15, and no mine gate sales in 2015/16.

^ Reflects the realised fines price for standard DSO fines ore only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. Contract pricing in the year was based on a mix of lagging-monthly and month-of-shipment averages. Mine gate sales, when they occur, are priced on a Free on Train basis, reflecting market prices less the cost of rail, port and shipping.

Minor discrepancies may appear due to rounding.

Extension Hill

The Extension Hill mine is located in the Mount Gibson Ranges, 85km east of Perenjori and 260km east south east of Geraldton in the Mid-West region of Western Australia. Ore is mined, crushed and screened on-site, transported by sealed road 85km to Perenjori, where it is loaded onto rail wagons and railed 240km to the Geraldton Port. Mining commenced at Extension Hill in the 2011/12 financial year.

The Extension Hill mine continued to perform well in 2015/16, with shipments through Geraldton Port totalling 3,382,000 wmt, comprising 1,963,000 wmt of lump product and 1,419,000 wmt of fines product.

The mine was cashflow positive for the year, reflecting the ongoing focus on cost reduction and efficiency improvements, and the strong contribution from lump sales. However, cash margins were generally under pressure throughout the year due to weaker iron ore prices.

All-in site cash costs[1] averaged $46/wmt sold FOB for the year.

With the sustained weakness in iron ore prices, the Company implemented a number of operational changes at Extension Hill identified through the ongoing business efficiency programme to reduce gross expenditure and preserve value in the prevailing low price environment. As part of this programme, the Company standardised two-and-one rosters across all of its Mid-West roles. Regretfully, this resulted in reductions in total full time positions across the mine, the Perenjori rail siding and the Company's loading facilities at Geraldton Port.

As at 30 June 2016, approximately 239,000 wmt of crushed finished product was stockpiled at the mine. Uncrushed product stockpiled at the mine totalled approximately 187,000 wmt. Mine-site stockpiles of uncrushed lower grade material totalled 3.5 Mwmt. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 394,000 wmt.

Production and shipping statistics for Extension Hill for the 2015/16 financial year are tabulated below:

Extension Hill Production Summary	**Unit**	**Sept Quarter 2015 '000**	**Dec Quarter 2015 '000**	**Mar Quarter 2016 '000**	**Jun Quarter 2016 '000**	**Year 2015/16 '000**	**Year 2014/15 '000**	***% Incr/ (Decr)***
Mining								
Waste mined*	*wmt*	539	487	461	486	**1,973**	**2,202**	*(10)*
Standard Ore mined	*wmt*	969	1,034	1,013	847	**3,864**	**3,369**	*15*
Low Grade Ore mined*	*wmt*	206	182	189	153	**731**	**864**	*(16)*
Total Ore Mined	*wmt*	**1,175**	**1,216**	**1,203**	**1,001**	**4,595**	**4,233**	*9*
Crushing								
Lump	*wmt*	619	590	518	575	**2,303**	**2,054**	*12*
Fines	*wmt*	420	436	350	387	**1,592**	**1,458**	*9*
		1,039	**1,026**	**868**	**962**	**3,895**	**3,512**	*11*
Transported to Perenjori Railhead								
Lump	*wmt*	600	589	504	514	**2,207**	**2,007**	*10*
Fines	*wmt*	422	430	359	287	**1,498**	**1,579**	*(5)*
		1,022	**1,019**	**863**	**801**	**3,705**	**3,586**	*3*
Transported to Geraldton Port								
Lump (Rail)	*wmt*	520	572	439	454	**1,985**	**1,809**	*10*
Fines (Rail)	*wmt*	320	442	343	255	**1,360**	**1,420**	*(4)*
		840	**1,014**	**782**	**709**	**3,345**	**3,229**	*4*
Shipping								
Lump	*wmt*	474	590	421	478	**1,963**	**1,823**	*8*
Fines	*wmt*	292	412	475	240	**1,419**	**1,381**	*3*
		766	**1,002**	**896**	**718**	**3,382**	**3,204**	*6*
Mine Gate Sales								
Lump	*wmt*	-	-	-	-	**-**	**72**	*(100)*
Fines	*wmt*	-	-	-	-	**-**	**132**	*(100)*
		-	**-**	**-**	**-**	**-**	**204**	*(100)*
Total Sales								
Lump	*wmt*	474	590	421	478	**1,963**	**1,895**	*4*
Fines	*wmt*	292	412	475	240	**1,419**	**1,513**	*(6)*
		766	**1,002**	**896**	**718**	**3,382**	**3,408**	*(1)*

* Low grade ore is material grading 50-55% Fe considered to be potentially saleable. This material is being stockpiled for future sale but continues to be treated as waste for accounting purposes.

Minor discrepancies may appear due to rounding.

[1] All-in site cash costs are reported FOB and include royalties and capex but are before corporate cost allocations. Cash cost figures are unaudited.

Koolan Island

Ore shipments from Koolan Island during the year totalled 1,465,000 wmt, with all ore sourced from the Acacia East satellite pit. This compares to the previous 2014/15 financial year where ore was also sourced from the Main Pit prior to the failure of the Main Pit seawall in late 2014 and shipments totalled 2,136,000 wmt.

Mining within the Acacia East satellite pit and ore sales were completed as planned during the March 2016 quarter. Koolan Island transitioned to care and maintenance status in the June 2016 quarter.

The average all-in site cash costs[2] at Koolan Island for the full year, inclusive of the care and maintenance costs incurred in the final quarter, were $37/wmt FOB, slightly below the Company's public guidance reflecting solid operational performance on site.

Production and shipping statistics for Koolan Island for the 2015/16 financial year are tabulated below:

Koolan Island Production Summary	**Unit**	**Sept Quarter 2015 '000**	**Dec Quarter 2015 '000**	**Mar Quarter 2016 '000**	**Jun Quarter 2016 '000**	**Year 2015/16 '000**	**Year 2014/15 '000**	**% Incr/ (Decr)**
Mining								
Waste mined	*wmt*	1,225	1,874	223	-	**3,322**	**14,428**	*(77)*
Ore mined	*wmt*	335	666	380	-	**1,381**	**1,643**	*(16)*
Crushing								
Lump	*wmt*	181	341	334	-	**855**	**621**	*38*
Fines	*wmt*	75	173	183	-	**431**	**817**	*(47)*
Rizhao Special Product (RSP)	*wmt*	-	-	-	-	**-**	**443**	*(100)*
		256	**514**	**517**	**-**	**1,286**	**1,882**	*(32)*
Shipping								
Lump	*wmt*	74	372	361	-	**807**	**697**	*16*
Fines	*wmt*	221	146	290	-	**658**	**1,152**	*(43)*
RSP	*wmt*	-	-	-	-	**-**	**287**	*(100)*
		295	**518**	**651**	**-**	**1,465**	**2,136**	*(31)*

Minor discrepancies may appear due to rounding.

Tallering Peak

Rehabilitation activities continued throughout the year, significantly reducing the provision for rehabilitation. Final site rehabilitation and environmental monitoring activities remain ongoing.

In the final quarter of the 2015/16 financial year, Mount Gibson monetised some remnant material remaining at the mine site. These opportunistic sales, totalling 125,000 wmt of low grade lump material, generated a modest cash margin and assisted with environmental rehabilitation at the Tallering Peak mine site.

Production and shipping statistics for Tallering Peak in the 2015/16 financial year are tabulated below:

Tallering Peak Production Summary	**Unit**	**Sept Quarter 2015 '000**	**Dec Quarter 2015 '000**	**Mar Quarter 2016 '000**	**Jun Quarter 2016 '000**	**Year 2015/16 '000**	**Year 2014/15 '000**	**% Incr/ (Decr)**
Transported to Mullewa Railhead								
- Lump	*wmt*	-	-	-	-	**-**	**7**	*(100)*
- Fines	*wmt*	-	-	-	-	**-**	**9**	*(100)*
		-	-	-	-	**-**	**16**	*(100)*
Transported to Geraldton Port								
- Lump	*wmt*	-	-	-	159	**159**	**43**	*270*
- Fines	*wmt*	-	-	-	-	**-**	**193**	*(100)*
		-	**-**	**-**	**159**	**159**	**236**	*(33)*
Shipping								
- Standard DSO Lump	*wmt*	-	-	-	-	**-**	**116**	*(100)*
- Standard DSO Fines	*wmt*	-	-	-	-	**-**	**118**	*(100)*
- Low Grade DSO Lump	*wmt*	-	-	-	125	**125**	**-**	*100*
- Low Grade DSO Fines	*wmt*	-	-	-	-	**-**	**58**	*(100)*
		-	**-**	**-**	**125**	**125**	**292**	*(57)*

Minor discrepancies may appear due to rounding.

[2] All-in site cash costs are reported FOB and include royalties and capex but are before corporate cost allocations. Cash cost figures are unaudited.

EXPLORATION AND DEVELOPMENT

Iron Hill (Extension Hill South)

In November 2015, the Public Environmental Review for the Iron Hill Deposit at Extension Hill South, immediately adjacent to the Company's operating Extension Hill mine, was released for public comment. A total of 11 submissions were received by the Office of the Environmental Protection Authority ("**OEPA**") of Western Australia.

Subsequent to the end of the year, the OEPA released a positive conditional recommendation for Iron Hill, with a period for public comment due to close in August 2016. The timing of a final determination remains subject to the outcome of any appeals lodged during the public comment period.

Mount Gibson also continues to progress other necessary regulatory requirements for Iron Hill.

Shine Project

In August 2015 Mount Gibson released an updated mineral resource estimate for the Shine Project, located 85km north of Extension Hill, following resource modelling work undertaken in mid-2015. The project remains a potentially viable development opportunity when iron ore market conditions improve.

CORPORATE

Financial Position

The Group's cash, term deposit and tradeable investments balances totalled $400,087,000 at 30 June 2016, an increase of $66,084,000 from the balance of $334,003,000 as at 30 June 2015.

As at the balance date, the Company's current assets totalled $463,818,000 and its current liabilities totalled $42,441,000. As at the date of this report, the Group has sufficient funds in addition to access to further equity and debt funding to maintain its existing operations and to advance its exploration and growth objectives.

Impairment

As a result of the continued weakness in iron ore prices in the first half of the 2015/16 financial year, the Group recorded an impairment expense in its December 2015 half-year financial statements of $23,613,000.

After adjustments to the recorded impairment expense in the second half of the year, including the write-back of previously-impaired iron ore inventories, the Group recorded a total impairment expense for the 2015/16 financial year of $15,413,000 before tax. This amount comprises impairments of consumables inventories (by $8,122,000 including obsolescence adjustments for continuing and discontinued operations), mine properties (by $2,135,000), deferred acquisition, exploration and evaluation assets (by $3,037,000) and property, plant and equipment (by $12,377,000), net of the write-back of previously-impaired iron ore inventories which were sold or contracted for future sale during the year (by $3,442,000 for continuing operations and by $6,816,000 for discontinued operations).

Foreign Exchange Hedging

As at 30 June 2016, the Group held foreign exchange collar option contracts covering the conversion of US$15,000,000 of anticipated future US dollar denominated revenues into Australian dollars over the five month period to 28 November 2016, with a cap price of A$1.00/US$0.750 and floor price of A$1.00/US$0.685. As at 30 June 2016, the marked-to-market unrealised gain on the total outstanding US dollar foreign exchange hedge book of US$15,000,000 was A$231,000.

Koolan Island Seawall Insurance Claim

During the year, Mount Gibson's investigation into the cause of the late-2014 failure of the Koolan Island Main Pit seawall identified the following technical factors as potentially relevant to the incident:

- the sensitivity and structure of the natural marine sediments that formed the base of the seawall;
- the extent that water pressure within the marine sediments had dissipated effectively; and
- the impact of planned excavation on the landward side of the seawall.

Mount Gibson maintains insurance policies for a variety of circumstances, including property damage and business interruption cover. Discussions with the Group's insurers in relation to the seawall failure commenced in December 2014 and, following an extensive claims preparation and negotiation process, final agreement was reached in June 2016 for a cash settlement of $86,000,000 for the property damage component of the claim. The settlement amount included the $1,850,000 interim payment received in mid-2015. By 30 June 2016, Mount Gibson had received $49,592,000 of the balance, with the remainder received in full shortly after year end.

Mount Gibson retains substantial carry-forward tax losses and other available tax deductions, and therefore does not expect any tax outflow on the settlement proceeds.

The settlement is independent of any decision the Group may take to rebuild the Main Pit seawall and is also separate to the ongoing discussions between Mount Gibson and its insurers in relation to the 12 month business interruption component of the insurance claim. The full value of the business interruption claim is yet to be quantified by the insurers and will be assessed subject to any relevant policy and limitations.

Koolan Island Logistics Base

In May 2015, Mount Gibson announced an agreement with specialist logistics provider Qube Holdings Limited of a framework to progress the potential establishment of the Koolan Island Logistics Base ("**KILB**") for the nearby offshore oil and gas industry, in collaboration with the Dambimangari Traditional Owners. The KILB proposal remains at an early conceptual stage and, during the 2015/16 financial year, significant falls in global oil and gas prices resulted in delays to the expected plans for assessment of the KILB opportunity, with activities currently suspended.

Likely Developments and Expected Results

Mount Gibson's overall objective is to maintain and grow long-term profitability through the discovery, development, operation and acquisition of mineral resources. As an established producer and seller of hematite iron ore, Mount Gibson's strategy is to grow its profile as a successful and profitable supplier of raw materials.

Key influences on the success of Mount Gibson are not only iron ore prices and foreign exchange rates but also consistency in government policy, the continued attainment of regulatory approvals, the ability to delineate new mineral resources and ore reserves, and the continued control of operating and capital costs.

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 reserves for value-accretive investments. The Board has determined the following key business objectives for the 2016/17 financial year:

- **Extension Hill** - pursue necessary regulatory government approvals for the development of the Iron Hill deposit to extend the operational life of the Extension Hill operation beyond the current end of the reserve life, currently expected in the first half of 2017.
- **Koolan Island** – maintain the site on care and maintenance, and undertake the detailed work required to assess the viability of reinstating the Main Pit seawall and recommencing production.
- **Koolan Island seawall insurance claim** - progress and finalise the business interruption component of the claim.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** – maintain the increased yield on the Group's cash reserves.
- **Growth projects** - continuation of the search for business development opportunities in the resources sector.

Extension Hill Outlook

The Company continues to implement operational changes at Extension Hill to reduce gross expenditure and allow potential to flex short term production while limiting the impact on unit costs. Guidance for all-in site cash costs[3] remains at $44-46/wmt for the 2016/17 financial year.

As previously indicated, Mount Gibson expects to complete mining operations in the current Extension Hill pit early in the December quarter of 2016, with sales from the current pit expected to conclude in early 2017 by which time the Company plans to have secured approvals for development of the adjacent Iron Hill deposit, located 3km south of the Extension Hill Main Pit. In the event that a gap between ore sales from the Extension Hill pit and Iron Hill appears likely, Mount Gibson will evaluate the financial merits of selling ore from existing low grade stockpiles until Iron Hill material is available.

Mount Gibson continually reviews 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 mine cashflows as well as to historical fixed infrastructure and transport obligations that would become payable on early closure. These obligations, which reduce with cumulative sales tonnage, totalled approximately $15 million at 30 June 2016.

Koolan Island Outlook

Following completion of shipments from the Acacia East satellite pit in the second half of the year, Koolan Island transitioned to care and maintenance status.

Activity at Koolan Island is now focused primarily on the ongoing evaluation of the potential to reinstate the Main Pit seawall and recommence production. Geotechnical drilling at the Main Pit seawall to provide technical data for the evaluation of potential rebuild options was completed in January 2016. Mount Gibson has now committed $1.5 million to undertake detailed design for the seawall, and mine design and production scheduling to achieve a material reduction in the average strip ratio and also a marked increase in product grade. Mount Gibson expects to conclude this detailed evaluation work in the March 20-17 quarter.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects its annual sales for the 2016/17 financial year to be between 2.8 and 3.1 million wmt of iron ore at an average all-in group cash cost[4] of $48-52/wmt FOB, equivalent to US$36-39/wmt at an exchange rate of A$1.00/US$0.75.

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[3] All-in site cash costs are reported FOB and include royalties and capex but are before corporate cost allocations.

[4] All-in group cash costs are reported FOB and include cash operating expenditure, royalties, capital expenditure and corporate costs.

SIGNIFICANT EVENTS AFTER BALANCE DATE

A total of 533,625 Performance Rights vested and were exercised after the end of the financial year ended 30 June 2016 in accordance with their terms.

Except for the above, as at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

DIVIDENDS

There were no dividends paid during the financial year ended 30 June 2016.

A final dividend for the 2015/16 financial year has not been declared given the presently depressed iron ore price environment and the Group's continued search for business acquisition opportunities.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

The Company has, during current or previous financial periods, entered into deeds of access and indemnity with certain Directors. These deeds provide access to documentation and indemnification against liability for loss suffered, as a result of any act or omission, to the extent permitted by the *Corporations Act 2001*, from conduct of the Group's business.

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as such a Director, Company Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001*.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contracts.

The Company has agreed to indemnify its auditors, Ernst & Young, to the fullest extent possible as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

SHARE OPTIONS AND PERFORMANCE RIGHTS

There were no options exercised or forfeited during the financial year or prior to the date of this Report. There are no options over ordinary shares in the Company on issue as at balance date and as at the date of this Report.

There were 474,350 Performance Rights vested and exercised during the financial year, with 711,500 Performance Rights remaining on issue as at balance date. Following the vesting and exercise of 533,625 Performance Rights immediately after balance date, there were 177,875 Performance Rights on issue as at the date of this Report.

Refer to the Remuneration Report for further details of options and Performance Rights outstanding.

DIRECTORS' INTERESTS IN THE SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests of the Directors in the Shares and Options of the Company were:

	Ordinary Shares	Options over Shares	Performance Rights over Shares
Lee Seng Hui*	-	-	-
A Jones	300,000	-	-
Li Shaofeng	-	-	-
R Barwick	-	-	-
S Bird	20,000	-	-
P Dougas	284,944	-	-
A Ferguson	-	-	-

* For the purposes of Corporations Act Regulation 2M.3.03(1)-Item 18, Mr Lee does not have a disclosable shareholding. However, we note that for purposes of ASX Listing Rule 3.19A2A, Mr Lee has previously declared an indirect "relevant interest" in 323,780,748 ordinary shares in the Company through his association with Allied Group Limited, a substantial shareholder of the Company – refer ASX announcement dated 27 June 2016.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Directors' Meetings	Audit and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee	Operational Risk and Sustainability Committee	Contracts Committee
Number of Meetings Held	9	4	4	4	-
Lee Seng Hui	7	3	3	-	-
A Jones	9	4	4	-	-
Li Shaofeng	8	-	-	-	-
R Barwick	9	-	4	4	-
S Bird	9	4	-	4	-
P Dougas	8	-	-	4	-
A Ferguson	1	-	-	-	-

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group has developed Environmental Management Plans for its various operating and development sites. The Environmental Management Plans have been approved by the Western Australian Government Departments of Mines and Petroleum, Environmental Protection Authority and, where applicable, Department of Parks and Wildlife and the Department of Health. In addition, plans associated with specific species have been approved by the Federal Department of the Environment.

The Environmental Protection Authority has also granted approval for the sites' management systems and plans. In addition, the Department of Environmental Regulation has granted approval of works to allow construction and operation of "prescribed" facilities and the Department of Mines and Petroleum has granted approval for Mining Proposals at each of the mine sites.

The Group holds various environmental licences and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licences include conditions and regulations in relation to specifying limits on activities in the environment, rehabilitation of areas disturbed during the course of mining, exploration activities, tenement conditions associated with exploration and mining and the storage of hazardous substances.

There have been no material breaches of the Group's licences, permits and approvals.

The Group continues to report under the National Greenhouse and Energy Reporting (NGER) Act 2009. Diesel combustion is the largest source of greenhouse gas emissions.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings on behalf of the Company under section 237 of the *Corporations Act 2001* in the financial year or at the date of this report.

ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191. The Company is an entity to which the instrument applies.

CURRENCY

Amounts in this report and the accompanying financial report are presented in Australian dollars unless otherwise stated.

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement is contained in the Additional ASX Information section of the Annual Report.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, the Directors received the attached Independence Declaration from the auditor of the Company on page 20 which forms part of this Report.

NON-AUDIT SERVICES

The following non-audit services were provided by the Company's auditor, EY, during the financial year ended 30 June 2016. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. EY received or is due to receive the following amounts for the provision of non-audit services:

	2016 **$**
Native title royalty audit	3,600

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the remuneration arrangements in place for Directors and Key Management Personnel of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any directors of the Company.

Nomination, Remuneration and Governance Committee ("NRGC")

The NRGC comprises two independent Non-Executive Directors, being Messrs Jones (Chairman) and Barwick, and one non-independent Non-Executive Director, being Mr Lee, the Chairman of the Board.

The NRGC of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and Key Management Personnel.

The NRGC assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing Board and executive team.

Remuneration Policy

The Remuneration Policy of the Group has been put in place to ensure that:

- remuneration policies and systems support the Company's wider objectives and strategies;
- Directors' and senior executives' remuneration is aligned to the long-term interests of shareholders within an appropriate control framework; and
- there is a clear relationship between the executives' performance and remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior executive management remuneration is separate.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined is then divided between the Non-Executive Directors as agreed. The latest determination was at the Annual General Meeting held on 16 November 2011 when Shareholders approved an aggregate remuneration of $1,250,000 per year. Total Non-Executive Director fees of $451,856 were paid in the 2015/16 financial year.

Each Non-Executive Director receives a fee for being a Director of the Company.

Non-Executive Directors should be adequately remunerated for their time and effort and the risks involved. Non-Executive Directors are remunerated to recognise the responsibilities, accountabilities and associated risks of Directors.

Each Non-Executive Director's performance and remuneration is reviewed on an annual basis by the Chairman and NRGC.

Non-Executive Directors' fixed remuneration will comprise the following elements:

- cash remuneration; and
- superannuation contributions made by the Company.

Board operating costs do not form part of Non-Executive Directors' remuneration.

Senior Executives' Remuneration

Objective

The Company aims to reward senior executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward senior executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of senior executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Use of Remuneration Consultants

The NRGC from time to time seeks advice from independent remuneration consultants regarding senior executives' remuneration structures and levels. Such consultants are engaged by, and report directly to, the NRGC, and are required to confirm in writing their independence from the Group's senior and other executives. No remuneration consultants were appointed for this purpose during the 2015/16 financial year.

Fixed Remuneration

The components of the senior executives' fixed remuneration are determined individually and may include:

- cash remuneration;
- superannuation;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

The senior executives' remuneration is reviewed on an annual basis by the Chief Executive Officer, whose remuneration is reviewed annually by the NRGC.

In determining the remuneration package, the NRGC reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year is considered in the context of the Company's capacity to fund remuneration budgets.

Variable Remuneration

Short-term Incentives ("STI")

Senior executives may receive variable remuneration in the form of STI of up to 30-50% of their annual salary package. STI payments are linked to defined performance measures and provide rewards for completing actions and objectives that are expected to materially improve Company performance. The total potential STI available for award is ultimately at the Board's discretion and is measured to provide sufficient incentive to the senior executives to achieve the objectives set, such that the cost to the Group is reasonable in the circumstances.

The performance measures typically comprise a combination of group and individual measures, chosen to align the interests of senior executives with shareholders, representing the key drivers for short term success of the business and providing a framework for delivering long term value.

On an annual basis, the performance of each senior executive is reviewed immediately prior to or just after the reporting date. The NRGC then determines the amount of STI to be allocated to each executive. Payments are made in cash after the reporting date.

Following its decision not to award an STI for the previous financial year, the Board exercised its discretion to make an award for the 2015/16 financial year based on the continuing improved operational performance and positive outcome of the Company's $86 million settlement of the property damage component of the Koolan Island seawall insurance claim.

Accordingly, a total STI cash incentive of $626,869 was awarded to Key Management Personnel for the 2015/16 financial year, representing 80% of the total STI cash incentive available to each of Messrs Beyer, Kerr and Stokes, and 33% of the operational bonus available to Mr de Kruijff. The respective balances of 20% and 67% for these individuals were forfeited. The amount of the STI is included in the Company's financials for the year and was payable after year end.

Long-term Incentive ("LTI") for 2016 financial year

The Company established the Mount Gibson Iron Limited Performance Rights Plan ("**PRP**") in the 2008 financial year. Under the PRP, the Board may invite eligible executives to apply for Performance Rights, which are an entitlement to receive ordinary shares in the Company, subject to satisfaction by the executive of specified performance hurdles set by the Board. The rights are granted at no cost to the executives and will convert into ordinary shares on completion by the executive of approximately three years' continuous service, subject to satisfaction of specified performance hurdles, unless such conditions are waived by the Board exercising its discretion. Current LTI awards are issued and tested for vesting against the Company's Total Shareholder Return ("**TSR**") relative to the TSR of a comparator group of iron ore companies over a 2-3 year period. The comparator group of companies comprises Rio Tinto Limited, Fortescue Metals Group Limited, Grange Resources Limited, Arrium Limited, Atlas Iron Limited, BC Iron Limited, Gindalbie Metals Limited and Western Desert Resources Limited. The PRP provides its executives with long term incentives linked between the delivery of value to shareholders, financial performance and rewarding and retaining the executives.

The employment contracts for the Chief Executive Officer, Mr Beyer, the Company Secretary & General Counsel, Mr Stokes, and the Chief Financial Officer, Mr Kerr, incorporate payment of a LTI. Under their employment contracts and subject to Board discretion, these executives may each year be invited to apply for, and the Company will grant, a number of Performance Rights equivalent to up to one third of their respective base salaries (including superannuation) divided by the volume weighted average price of the Company's shares as traded on ASX for the 30 day period prior to 30 June for the relevant year.

In line with the Company's cost reduction strategy, no Performance Rights were issued by the Company to senior executives in respect of the 2015/16 financial year.

The Company has a policy restricting executives from entering into arrangements to protect the value of unvested LTI entitlements under equity-based remuneration plans.

Employment Contracts

As at the date of this report, the Group had entered into employment contracts with the following executives:

Jim Beyer

The key terms of his contract include:

- Commenced as Chief Operating Officer on 2 November 2011 and was appointed as Chief Executive Officer on 14 May 2012, with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Beyer is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Beyer wishes to terminate the contract, he must provide six months' notice.
- During the previous financial year, Mr Beyer agreed to a significant reduction in his annual base salary (including superannuation) from $764,400 to $500,000 for the 12 month period to 1 March 2016. During this time the mandatory CPI adjustment was also waived. The Board also agreed to pay a conditional deferred bonus to Mr Beyer as part of the restructuring arrangement to compensate for the reduced remuneration and loss of leave entitlements during this period, with the timing of payment of the deferred bonus at the Board's discretion. Following review by the Board, agreement was reached with Mr Beyer for the waiver of this conditional deferred bonus and for his annual salary (including superannuation) to be increased from $500,000 to $670,000 with effect from 1 March 2016, and subject to future CPI adjustment.

Peter Kerr

The key terms of his contract include:

- Commenced 19 September 2012 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Kerr is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Kerr wishes to terminate the contract, he must provide six months' notice.
- During the previous financial year, Mr Kerr agreed to a significant reduction in his annual base salary (including superannuation) from $474,116 to $365,000 for the 12 month period to 1 March 2016. During this time the mandatory CPI adjustment was also waived. The Board also agreed to pay a conditional deferred bonus to Mr Kerr as part of the restructuring arrangement to compensate for the reduced remuneration and loss of leave entitlements during this period, with the timing of payment of the deferred bonus at the Board's discretion. Following review by the Board, agreement was reached with Mr Kerr for the waiver of this conditional deferred bonus and for his annual salary (including superannuation) to be increased from $365,000 to $450,000 with effect from 1 March 2016, and subject to future CPI adjustment.

David Stokes

The key terms of his contract include:

- Commenced 2 April 2012 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Stokes is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Stokes wishes to terminate the contract, he must provide six months' notice.

Scott de Kruijff

The key terms of his contract include:

- Commenced as General Manager Koolan Island on 17 September 2013 and subsequently appointed as General Manager – Operations on 1 July 2015 with no set term;
- Annual Salary review subject to performance;
- Operational incentive of up to 30% of Annual Salary Package;
- Employee can terminate upon one month's notice and the Company upon six weeks' notice, or immediately for any serious misconduct.

Details of directors and key management personnel disclosed in this report

[i] Directors

Lee Seng Hui	Chairman
A Jones	Non-Executive Director
Li Shaofeng	Non-Executive Director
R Barwick	Non-Executive Director
S Bird	Lead Non-Executive Director
P Dougas	Non-Executive Director
A Ferguson	Alternate Director to Mr Lee

[ii] Key Management Personnel

J Beyer	Chief Executive Officer
P Kerr	Chief Financial Officer
D Stokes	Company Secretary and General Counsel
S de Kruijff	General Manager - Operations (from 1 July 2015)

Remuneration of Key Management Personnel for the year ended 30 June 2016

	Short Term			Post Employment		Long Term	Share Based Payment**	Termination Payment		
30 June 2016	**Salary & Fees $**	**Non Monetary $**	**Cash Incentives* $**	**Super-annuation $**	**Retirement Benefits $**	**Long Service Leave $**	**Options and Performance Rights $**	**$**	**Total $**	**% Perform-ance Related**
Directors										
Lee Seng Hui	85,617	-	-	8,134	-	-	-	-	**93,751**	-
A Jones	80,937	-	-	7,689	-	-	-	-	**88,626**	-
Li Shaofeng	-	-	-	-	-	-	-	-	**-**	-
R Barwick	80,937	-	-	7,689	-	-	-	-	**88,626**	-
S Bird	87,786	9,102	-	8,340	-	-	-	-	**105,228**	-
P Dougas	69,064	-	-	6,561	-	-	-	-	**75,625**	-
A Ferguson	-	-	-	-	-	-	-	-	**-**	-
Sub-total	**404,341**	**9,102**	**-**	**38,413**	**-**	**-**	**-**	**-**	**451,856**	
Other KMP										
J Beyer	548,269	24,561	144,779	48,295	-	8,859	31,026	-	**805,789**	22
P Kerr	379,096	24,087	136,971	33,253	-	2,684	19,430	-	**595,521**	26
D Stokes	323,253	11,989	138,869	30,120	-	1,918	13,696	-	**519,845**	29
S de Kruijff	371,245	13,155	40,000^	35,245	-	1,474	-	-	**461,119**	9
Sub-total	**1,621,863**	**73,792**	**460,619**	**146,913**	**-**	**14,935**	**64,152**	**-**	**2,382,274**	
Totals	**2,026,204**	**82,894**	**460,619**	**185,326**	**-**	**14,935**	**64,152**	**-**	**2,834,130**	

* Cash incentives for Messrs Beyer and Kerr are shown net of the reversal of the Conditional Deferred Bonuses disclosed for the prior year ended 30 June 2015. These Conditional Deferred Bonuses were not paid by the Company. The gross STI cash incentives for the year ended 30 June 2016 were $268,000 for Mr Beyer and $180,000 for Mr Kerr.

** Share based payments represent the accounting expense incurred by the Company for the stated financial period, reflecting the terms of the particular Options or Performance Rights.

^ Deferred cash incentive related to the Group's Koolan Island main pit seawall insurance claim.

Options granted as part of remuneration for the year ended 30 June 2016

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan. Options issued pursuant to this plan do not have performance conditions but do contain a vesting condition requiring the employee to remain employed by the Group until a certain date. The cost of these options is measured by reference to their fair value at the date at which they are granted. The fair value is determined by using a binomial model.

There were no options granted to Directors and Executives during the year ended 30 June 2016 and there are no options outstanding as at 30 June 2016.

Performance Rights granted as part of remuneration for the year ended 30 June 2016

There were no performance rights granted as part of remuneration during the year ended 30 June 2016.

Performance Rights vested

The following Performance Rights vested during the financial year:

	30 June 2016	30 June 2015
J Beyer	243,450	-
P Kerr	121,340	-
D Stokes	109,560	-

A total of 474,350 Performance Rights vested and were exercised during the 2015/16 financial year upon the Board exercising its discretion under the Company's Performance Rights Plan.

A total of 533,625 Performance Rights vested to Messrs Beyer (258,075 Performance Rights), Kerr (161,625 Performance Rights) and Stokes (113,925 Performance Rights) and were exercised after the end of the financial year ended 30 June 2016 in accordance with their terms.

In accordance with the PRP, no amounts were paid, or remain unpaid, on the exercise of these Performance Rights.

Performance Rights benefits

For each grant of Performance Rights, the percentage of the available grant that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The Performance Rights vest after two to three years, providing the vesting conditions are met (refer above).

	Year Granted	Vested %	Forfeited/ Lapsed %	Financial Years Performance Rights May Vest
J Beyer	2012/13	100	-	-
J Beyer	2013/14	-	-	2016/17
P Kerr	2012/13	100	-	-
P Kerr	2013/14	-	-	2016/17
D Stokes	2012/13	100	-	-
D Stokes	2013/14	-	-	2016/17

Performance Rights holdings by Key Management Personnel as at 30 June 2016

30 June 2016	Balance 1 July 2015	Granted as Remuneration	Exercised during the year	Lapsed/ forfeited during the year	Balance 30 June 2016
Directors					
Lee Seng Hui	-	-	-	-	-
A Jones	-	-	-	-	-
Li Shaofeng	-	-	-	-	-
R Barwick	-	-	-	-	-
S Bird	-	-	-	-	-
P Dougas	-	-	-	-	-
A Ferguson	-	-	-	-	-
Other KMP					
J Beyer	587,550	-	(243,450)	-	344,100
P Kerr	336,840	-	(121,340)	-	215,500
D Stokes	261,460	-	(109,560)	-	151,900
S de Kruijff	-		-	-	-
Total	**1,185,850**	**-**	**(474,350)**	**-**	**711,500**

At 30 June 2016, there were 711,500 Performance Rights on issue, of which 533,625 Performance Rights vested on 1 July 2016 in accordance with their terms.

Shares issued on exercise of Options and Performance Rights for the year ended 30 June 2016

There were no shares issued on the exercise of options during the year ended 30 June 2016 (2015: nil).

There were 474,350 shares issued on the exercise of 474,350 Performance Rights on 4 January 2016.

There were 533,625 shares issued on the exercise of 533,625 Performance Rights on 1 July 2016 in accordance with their terms.

Shareholdings of Key Management Personnel as at 30 June 2016

30 June 2016	Balance 1 July 2015 Ord	Granted as Remuneration Ord	Exercise of Performance Rights Ord	Net Change Other Ord	Balance 30 June 2016 Ord
Directors					
Lee Seng Hui*	-	-	-	-	-
A Jones	100,000	-	-	200,000	300,000
Li Shaofeng	-	-	-	-	-
R Barwick	-	-	-	-	-
S Bird	20,000	-	-	-	20,000
P Dougas	284,944	-	-	-	284,944
A Ferguson	-	-	-	-	-
Other KMP					
J Beyer	240,654	-	243,450	-	484,104
P Kerr	-	-	121,340	-	121,340
D Stokes	-	-	109,560	-	109,560
S de Kruijff	-	-	-	-	-
Total	**645,598**	**-**	**474,350**	**200,000**	**1,319,948**

* For the purposes of Corporations Act Regulation 2M.3.03(1)-Item 18, Mr Lee does not have a disclosable shareholding. However, we note that for purposes of ASX Listing Rule 3.19A2A, Mr Lee has previously declared an indirect "relevant interest" in 323,780,748 ordinary shares in the Company through his association with Allied Group Limited, a substantial shareholder of the Company – refer ASX announcement dated 27 June 2016.

Remuneration of Key Management Personnel for the year ended 30 June 2015

	Short Term			Post Employment		Long Term	Share Based Payment*	Termination Payment		
30 June 2015	Salary & Fees $	Non Monetary $	Conditional Deferred Bonus** $	Super-annuation $	Retirement Benefits $	Long Service Leave $	Options and Performance Rights $	$	Total $	% Perform-ance Related
Directors										
Lee Seng Hui	89,540	-	-	8,506	-	-	-	-	**98,046**	-
A Jones	103,387	-	-	9,822	-	-	-	-	**113,209**	-
Li Shaofeng	-	-	-	-	-	-	-	-	**-**	-
R Barwick	103,387	-	-	9,822	-	-	-	-	**113,209**	-
S Bird	111,758	-	-	10,617	-	-	-	-	**122,375**	-
P Dougas	93,341	-	-	8,867	-	-	-	-	**102,208**	-
A Ferguson	-	-	-	-	-	-	-	-	**-**	-
Sub-total	**501,413**	**-**	**-**	**47,634**	**-**	**-**	**-**	**-**	**549,047**	
Other KMP										
J Beyer	662,475	12,207	123,221	36,560	-	1,316	158,562	-	**994,341**	28
P Kerr	407,683	10,997	43,029	30,061	-	990	58,610	-	**551,370**	18
A Thomson	495,934	11,840	-	34,516	-	1,667	21,782	471,229	**1,036,968**	2
D Stokes	324,583	9,050	-	22,590	-	1,250	47,257	-	**404,730**	12
Sub-total	**1,890,675**	**44,094**	**166,250**	**123,727**	**-**	**5,223**	**286,211**	**471,229**	**2,987,409**	
Totals	**2,392,088**	**44,094**	**166,250**	**171,361**	**-**	**5,223**	**286,211**	**471,229**	**3,536,456**	

* Share based payments represent the accounting expense incurred by the Company for the stated financial period, reflecting the terms of the particular options or Performance Rights.

** Mr Beyer and Mr Kerr were in certain circumstances entitled to a deferred bonus. Refer "Employment Contracts" above.

Loans to Key Management Personnel

There were no loans to key management personnel during the years ended 30 June 2016 and 30 June 2015.

Other Transactions and Balances with Key Management Personnel

There were no other transactions and balances with key management personnel during the years ended 30 June 2016 and 30 June 2015.

Company Performance

The table below shows the performance of the Group over the last 5 years:

		30 June 2016	30 June 2015	30 June 2014	30 June 2013	Restated* 30 June 2012
Net profit/(loss) after tax	***$'000***	86,297	(911,422)	96,353	157,342	162,016
Earnings/(loss) per share	***$/share***	7.91	(0.8356)	0.0884	0.1445	0.1496
Closing share price	***$***	0.26	0.20	0.69	0.47	0.86

* Restated to reflect adjustments made on the adoption of AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*.

End of remuneration report.

Signed in accordance with a resolution of the Directors.

Lee Seng Hui

LEE SENG HUI
Chairman

Sydney, 16 August 2016

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Auditor's Independence Declaration to the Directors of Mount Gibson Iron Limited

As lead auditor for the audit of Mount Gibson Iron Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit*;* and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mount Gibson Iron Limited and the entities it controlled during the financial year ended 30 June 2016.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
16 August 2016

Consolidated Income Statement

For the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
CONTINUING OPERATIONS			
Sale of goods	2[a]	235,188	315,644
Interest revenue		9,667	12,209
TOTAL REVENUE		**244,855**	**327,853**
Cost of sales	3[b]	(213,681)	(341,742)
Impairment write-back/(loss) on ore inventories	9[iii]	3,442	(3,442)
GROSS PROFIT/(LOSS)		**34,616**	**(17,331)**
Other income	2[b]	91,848	7,874
Consumables stock obsolescence	9[i]	(31)	(9,048)
Impairment of consumables inventories	9[ii]	(8,111)	(339)
Impairment of mine properties	15	(2,135)	(712,917)
Impairment of property, plant and equipment	15	(12,377)	(203,213)
Impairment of deferred acquisition, exploration and evaluation	13	(3,037)	(19,219)
Exploration expenses	13	(77)	(1,014)
Net unrealised marked-to-market gain/(loss)	3[c]	512	-
Administration expenses	3[d]	(19,903)	(31,279)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		**81,305**	**(986,486)**
Finance costs	3[a]	(1,760)	(2,929)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX		**79,545**	**(989,415)**
Tax benefit/(expense)	4	761	99,908
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**80,306**	**(889,507)**
DISCONTINUED OPERATIONS			
Profit/(loss) after tax for the year from discontinued operations	30[a]	5,991	(21,915)
PROFIT/(LOSS) AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**86,297**	**(911,422)**
Earnings/(loss) per share (cents per share)			
• basic earnings/(loss) per share	24	7.91	(83.56)
• diluted earnings/(loss) per share	24	7.91	(83.56)
Earnings/(loss) per share (cents per share) for continuing operations			
• basic earnings/(loss) per share	24	7.36	(81.55)
• diluted earnings/(loss) per share	24	7.36	(81.55)

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	2016 $'000	2015 $'000
PROFIT/(LOSS) FOR THE PERIOD AFTER TAX	**86,297**	**(911,422)**
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items that may be subsequently reclassified to profit or loss		
Change in fair value of cash flow hedges	(231)	5,334
Reclassification adjustments for gain/(loss) on cash flow hedges transferred to the Income Statement	231	(7,729)
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	**86,297**	**(913,098)**

Consolidated Balance Sheet
As at 30 June 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	5	43,316	91,003
Term deposits and subordinated notes	6	337,000	243,000
Financial assets held for trading	7	19,771	-
Trade and other receivables	8	41,546	15,354
Inventories	9	20,017	21,078
Prepayments		1,887	3,304
Derivative financial assets	10	231	-
Income tax receivable		50	-
Total Current Assets		**463,818**	**373,739**
Non-Current Assets			
Property, plant and equipment	12	8,744	31,494
Deferred acquisition, exploration and evaluation	13	-	2,924
Mine properties	14	-	3,205
Total Non-Current Assets		**8,744**	**37,623**
TOTAL ASSETS		**472,562**	**411,362**
LIABILITIES			
Current Liabilities			
Trade and other payables	16	36,229	49,664
Interest-bearing loans and borrowings	17	421	2,619
Provisions	18	5,791	13,802
Total Current Liabilities		**42,441**	**66,085**
Non-Current Liabilities			
Provisions	18	38,186	39,584
Interest-bearing loans and borrowings	17	-	119
Total Non-Current Liabilities		**38,186**	**39,703**
TOTAL LIABILITIES		**80,627**	**105,788**
NET ASSETS		**391,935**	**305,574**
EQUITY			
Issued capital	19	568,328	568,328
Accumulated losses	21	(1,157,500)	(1,243,797)
Reserves	20	981,107	981,043
TOTAL EQUITY		**391,935**	**305,574**

Consolidated Cash Flow Statement

For the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		245,957	356,090
Payments to suppliers and employees		(240,670)	(454,467)
Interest paid		(345)	(680)
Income tax refund received		711	7,958
NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES	5[b]	**5,653**	**(91,099)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		9,834	13,409
Proceeds from sale of property, plant and equipment		4,530	2,686
Purchase of property, plant and equipment		(2,643)	(52,145)
Proceeds from/(payment for) term deposits and subordinated notes		(94,000)	206,300
Payment for financial assets held for trading		(19,467)	-
Payment for acquisition costs for exploration and evaluation assets		-	(521)
Proceeds from sale of exploration and evaluation assets		650	-
Payment for deferred exploration and evaluation expenditure		(840)	(5,407)
Payment for mine properties		-	(338)
Proceeds from seawall property insurance		51,142	300
NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES		**(50,794)**	**164,284**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities		(2,162)	(6,660)
Proceeds from/(repayment of) insurance premium funding facility		317	(657)
Payment of borrowing costs		(306)	(705)
Dividends paid		-	(43,632)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		**(2,151)**	**(51,654)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(47,292)	21,531
Net foreign exchange difference		(395)	(999)
Cash and cash equivalents at beginning of year		91,003	70,471
CASH AND CASH EQUIVALENTS AT END OF YEAR	5[a]	**43,316**	**91,003**

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Attributable to Equity Holders of the Parent						Total Equity
	Issued Capital	Retained Earnings/ (Accumulated Losses)	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Dividend Distribution Reserve	Other Reserves	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2014	**568,328**	**675,519**	**19,687**	**1,676**	**-**	**(3,192)**	**1,262,018**
Loss for the period	-	(911,422)	-	-	-	-	**(911,422)**
Other comprehensive loss	-	-	-	(1,676)	-	-	**(1,676)**
Total comprehensive loss for the year	**-**	**(911,422)**	**-**	**(1,676)**	**-**	**-**	**(913,098)**
Transactions with owners in their capacity as owners							
- Dividends paid	-	(43,632)	-	-	-	-	**(43,632)**
Share-based payments	-	-	286	-	-	-	**286**
Transfer of prior year profits	-	(964,262)	-	-	964,262	-	**-**
At 30 June 2015	**568,328**	**(1,243,797)**	**19,973**	**-**	**964,262**	**(3,192)**	**305,574**
At 1 July 2015	**568,328**	**(1,243,797)**	**19,973**	**-**	**964,262**	**(3,192)**	**305,574**
Profit for the period	-	86,297	-	-	-	-	**86,297**
Other comprehensive profit	-	-	-	-	-	-	**-**
Total comprehensive loss for the year	**-**	**86,297**	**-**	**-**	**-**	**-**	**86,297**
Transactions with owners in their capacity as owners							
- Dividends paid	-	-	-	-	-	-	**-**
Share-based payments	-	-	64	-	-	-	**64**
Transfer of profits	-	-	-	-	-	-	**-**
At 30 June 2016	**568,328**	**(1,157,500)**	**20,037**	**-**	**964,262**	**(3,192)**	**391,935**

Notes to the Consolidated Financial Report

For the year ended 30 June 2016

1. Summary of Significant Accounting Policies

(a) Corporate information

The consolidated financial statements of the Group, comprising the Company and the entities that it controlled during the year ended 30 June 2016, were authorised for issue in accordance with a resolution of the Directors on 16 August 2016.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of operations and principal activities of the Group are the mining of hematite iron ore deposits at Koolan Island and Extension Hill, the exploration and development of hematite deposits in Western Australia and elsewhere, treasury management and the pursuit of mineral resources investments.

The address of the registered office is Level 1, 2 Kings Park Road, West Perth, Western Australia, 6005, Australia.

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and financial assets held for trading that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated, under the option available to the Company under Australian Securities and Investment Commission ("**ASIC**") Instrument 2016/191. The Company is an entity to which the instrument applies.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entities.

The financial statements of controlled entities are prepared for the same reporting period as the Company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

(d) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

Notes to the Consolidated Financial Report (continued)

From 1 July 2015 the Group has adopted all new and amended accounting standards mandatory for annual periods beginning on or after 1 July 2015 including:

Reference	Title	Application date of standard	Application date for Group
AASB 2013-9	*Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.	1 January 2015	1 July 2015
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality.* The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	1 July 2015

Changes to accounting policies due to adoption of these standards and interpretations are not considered significant for the Group.

Notes to the Consolidated Financial Report (continued)

Other Australian Accounting Standards and Interpretations relevant to the Group that have recently been issued or amended, are not yet effective and have not been adopted by the Group for the period ended 30 June 2016 are outlined in the table below:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The entity's own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. **Classification and measurement** AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below. ***Financial assets*** a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. ***Financial liabilities*** Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI). ► The remaining change is presented in profit or loss. AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.	1 January 2018	1 July 2018

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
		Impairment The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. **Hedge accounting** Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.		
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	AASB 2014-3 amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require: (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations. This Standard also makes an editorial correction to AASB 11.	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	1 July 2016

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15	Revenue from Contracts with Customers	AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue—Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB). AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer. (b) Step 2: Identify the performance obligations in the contract. (c) Step 3: Determine the transaction price. (d) Step 4: Allocate the transaction price to the performance obligations in the contract. (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.	1 January 2018	1 July 2018
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	AASB 2014-10 amends AASB 10 *Consolidated Financial Statements* and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require: (a) A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and (b) A partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.	1 January 2018	1 July 2018

Notes to the Consolidated Financial Report (continued)

<table>
<tr><th>Reference</th><th>Title</th><th>Summary</th><th>Application date of standard</th><th>Application date for Group</th></tr>
<tr><td>AASB 2015-1</td><td>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle</td><td>The subjects of the principal amendments to the Standards are set out below:

AASB 5 Non-current Assets Held for Sale and Discontinued Operations:

• Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.

AASB 7 Financial Instruments: Disclosures:

• Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.
• Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.

AASB 119 Employee Benefits:

• Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

AASB 134 Interim Financial Reporting:

• Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</td><td>1 January 2016</td><td>1 July 2016</td></tr>
<tr><td>AASB 2015-2</td><td>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</td><td>The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.</td><td>1 January 2016</td><td>1 July 2016</td></tr>
</table>

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 16	Leases	The key features of AASB 16 are as follows: **Lessee accounting** • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. **Lessor accounting** • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. AASB 16 supersedes: (a) AASB 117 Leases; (b) Interpretation 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases—Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.	1 January 2019	1 July 2019
2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	This Standard amends AASB 112 *Income Taxes* (July 2004) and AASB 112 *Income Taxes* (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	This Standard amends AASB 107 *Statement of Cash Flows* (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	1 July 2017

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]	This standard amends to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: ► The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ► Share-based payment transactions with a net settlement feature for withholding tax obligations ► A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled	1 January 2018	1 July 2018

A number of new accounting standards have been issued but were not effective as at 30 June 2016. The Group has elected not to early adopt any of these new standards or amendments in these financial statements. In view of the current state of operations, the Group has yet to fully assess the impact these accounting standards and amendments will have on the financial statements, when applied in future periods.

While in early stages of assessment, the adoption of AASB 16 *Leases* in financial year 2020 is not expected to have a significant impact on the Group's balance sheet and income statement, given the low value of the Group's lease arrangements.

(e) Foreign currency

The functional currency of the Company and its controlled entities is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the income statement in the consolidated financial report.

(f) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(g) Other accounting policies

Other significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

(h) Key accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Significant judgements and estimates which are material to the financial statements are provided throughout the notes to the financial statements.

Other significant accounting judgements, estimates and assumptions not provided in the notes to the financial statements are as follows:

Determination of mineral resources and ore reserves

The Group estimates its mineral resources and ore reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 (the "**JORC Code**"). The information on mineral resources and ore reserves was prepared by or under the supervision of Competent Persons as defined in the JORC Code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC Code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the ore reserves being restated. Such changes in the ore reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping costs and provisions for decommissioning and restoration.

	Notes	2016 $'000	2015 $'000

2. Revenue and Other Income

	Notes	2016 $'000	2015 $'000
[a] Revenue			
Sale of ore		234,806	323,422
Realised gain/(loss) on foreign exchange hedges		382	(7,778)
		235,188	315,644
[b] Other income			
Net realised gain on foreign exchange transactions		603	4
Net gain on disposal of property, plant and equipment		3,486	1,167
Net gain on sale of financial assets held for trading		23	-
Arbitration settlement income		25	-
Insurance proceeds – seawall property damage	[i]	86,000	-
Insurance proceeds - other		117	-
Other income		1,594	6,703
		91,848	7,874

[i] During the year, Mount Gibson reached final agreement with its insurers for a cash settlement of $86,000,000 for the property damage component of its insurance claim relating to the failure of the Koolan Island Main Pit seawall in late 2014. The settlement amount comprises the $1,850,000 interim payment received in mid-2015 (of which $300,000 was received in the prior financial year and $1,550,000 was received in the current year), the A$49,592,000 received in cash in the current year and the remaining balance of A$34,558,000 recorded as a receivable as at 30 June 2016.

The settlement is independent of any decision the Group may take to rebuild the Main Pit seawall and is also separate to the ongoing discussions between Mount Gibson and its insurers in relation to the 12 month business interruption component of the insurance claim. The full value of the business interruption claim is yet to be quantified by the insurers and will be assessed subject to any relevant policy and limitations.

Recognition and measurement

Revenue

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

The Group generates a significant proportion of revenue from the sale of iron ore. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

3. Expenses

	2016 $'000	2015 $'000
[a] Finance costs		
Finance charges on banking facilities	661	1,347
Finance charges payable under finance leases	82	340
	743	1,687
Non-cash interest accretion on rehabilitation provision	1,017	1,242
	1,760	2,929

Notes to the Consolidated Financial Report (continued)

	Notes	2016 $'000	2015 $'000
3. Expenses (Continued)			
[b] Cost of Sales			
Mining and site administration costs		69,834	184,295
Depreciation – mining and site administration		6,545	19,221
Mining waste costs deferred	14	-	(92,683)
Amortisation of mining waste costs deferred	14	-	20,117
Amortisation of mine properties	14	1,070	14,208
Crushing costs		11,174	25,908
Depreciation – crushing		1,212	4,212
Transport costs		90,686	88,848
Depreciation – transport		1,410	6,326
Port costs		17,697	21,810
Depreciation – port		2,055	5,638
Royalties		18,520	29,760
Net ore inventory movement		(4,377)	14,289
Rehabilitation revised estimate adjustments		(2,145)	(207)
		213,681	341,742
[c] Net Unrealised Marked-to-Market Gain/(Loss)			
Foreign exchange derivatives marked-to-market gain		231	-
Financial assets held for trading marked-to-market gain		281	-
		512	-
[d] Administration Expenses include:			
Depreciation		700	735
Share-based payments expense	23	64	286
Impairment of debtors	8	1,278	964
Net unrealised loss on foreign exchange balances		395	999
Seawall insurance claim and related site works expenses		1,300	2,970
Insurance premiums		1,666	1,211
Business development expense		1,852	-
[e] Cost of Sales and Administration expenses above include:			
Salaries, wages expense and other employee benefits		29,789	73,383
Operating lease rental – minimum lease payments		1,476	11,950

Recognition and measurement

Employee benefits expense

The Group's accounting policy for liabilities associated with employee benefits is set out in note 18. The policy relating to share-based payments is set out in note 23.

Superannuation

Contributions made by the Group to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

Borrowing costs

Borrowing costs are recognised as an expense when incurred except when borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Depreciation and amortisation

Refer to notes 12 and 14 for details on depreciation and amortisation.

Impairment

Impairment expenses are recognised to the extent that the carrying amount of assets exceed their recoverable amount. Refer to note 15 for further details on impairment.

	2016 $'000	2015 $'000

4. Taxation

Major components of tax (benefit)/expense for the years ended 30 June 2016 and 2015 are:

	2016 $'000	2015 $'000
Income Statement		
Current tax		
Current income tax charge	-	-
Refund in respect of previous return	(761)	-
Adjustments in respect of current income tax of previous year	-	1,703
Deferred tax		
Relating to origination and reversal of temporary differences:		
Income tax	-	(144,785)
Minerals resource rent tax	-	45,999
Tax (benefit)/expense reported in Income Statement	**(761)**	**(97,083)**
Tax (benefit)/expense relating to continuing operations	(761)	(99,908)
Tax (benefit)/expense relating to discontinued operations	-	2,825
	(761)	**(97,083)**
Statement of Changes in Equity		
Deferred income tax		
Remeasurement of foreign exchange contracts	-	(719)
Deferred income tax (benefit)/liability reported in equity	-	(719)

Reconciliation of tax (benefit)/expense

A reconciliation of tax (benefit)/expense applicable to accounting profit/(loss) before tax at the statutory income tax rate to tax expense at the Group's effective tax rate for the years ended 30 June 2016 and 2015 is as follows:

	2016 $'000	2015 $'000
Accounting profit/(loss) before tax	85,536	(1,008,505)
• At the statutory income tax rate of 30% (2015: 30%)	25,661	(302,551)
• Expenditure not allowed for income tax purposes	214	160
• Unrecognised deferred tax assets	-	158,720
• Recognition of previously unrecognised deferred tax assets	(36,016)	-
• Adjustments in respect of current income tax of previous year	-	1,703
• Adjustments in respect of deferred tax	7,601	-
• Other	1,779	(1,114)
Minerals resource rent tax expense	-	45,999
Tax (benefit)/expense	**(761)**	**(97,083)**
Effective tax rate	(0.9%)	9.6%
Tax (benefit)/expense reported in Income Statement	**(761)**	**(97,083)**

4. Taxation (Continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED						
Accrued liabilities	(547)	(7,299)	-	-	(547)	(7,299)
Capital raising costs	(294)	(4)	-	-	(294)	(4)
Deferred expense	(445)	-	-	-	(445)	-
Deferred income	-	-	783	592	783	592
Foreign exchange contracts	(49)	(300)	-	-	(49)	(300)
Inventory	(2,745)	(2,891)	-	-	(2,745)	(2,891)
Prepaid expenditure	-	-	23	7	23	7
Fixed assets, mine properties and exploration expenditure	(35,793)	(70,748)	-	-	(35,793)	(70,748)
Provisions	(16,429)	(19,215)	-	-	(16,429)	(19,215)
Borrowing cost	(510)	(797)	-	-	(510)	(797)
Tax losses	(66,698)	(58,065)	-	-	(66,698)	(58,065)
Tax (assets)/liabilities	(123,510)	(159,319)	806	599	(122,704)	(158,720)
Set off of tax	-	-	-	-	-	-
Derecognition of deferred tax asset	123,510	159,319	(806)	(599)	122,704	158,720
Net tax (assets)/liabilities	**-**	**-**	**-**	**-**	**-**	**-**

Movement in temporary differences during the financial year ended 30 June 2016	Balance 1 July 2015 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2016 $'000
Accrued liabilities	(7,299)	6,752	-	(547)
Capital raising costs	(4)	(290)	-	(294)
Deferred expense	-	(445)	-	(445)
Deferred income	592	191	-	783
Foreign exchange contracts	(300)	251	-	(49)
Inventory	(2,891)	146	-	(2,745)
Prepaid expenditure	7	16	-	23
Fixed assets, mine properties and exploration expenditure	(70,748)	34,955	-	(35,793)
Provisions	(19,215)	2,786	-	(16,429)
Borrowing cost	(797)	287	-	(510)
Tax losses	(58,065)	(8,633)	-	(66,698)
Derecognition of deferred tax asset	158,720	(36,016)	-	122,704
	-	**-**	**-**	**-**

Notes to the Consolidated Financial Report (continued)

4. Taxation (Continued)

	Balance 1 July 2014 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2015 $'000
Movement in temporary differences during the financial year ended 30 June 2015				
Accrued liabilities	(1,100)	(6,199)	-	(7,299)
Capital raising costs	(17)	13	-	(4)
Deferred income	1,270	(678)	-	592
Foreign exchange contracts	353	66	(719)	(300)
Inventory	254	(3,145)	-	(2,891)
Minerals resource rent tax	(45,999)	45,999	-	-
Prepaid expenditure	192	(185)	-	7
Fixed assets, mine properties and exploration expenditure	165,460	(236,208)	-	(70,748)
Provisions	(20,070)	855	-	(19,215)
Borrowing cost	(838)	41	-	(797)
Tax losses	-	(58,065)	-	(58,065)
Derecognition of deferred tax asset	-	158,720	-	158,720
	99,505	**(98,786)**	**(719)**	**-**

	2016 $'000	2015 $'000
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Non-current assets	56,006	100,655
Tax losses	66,698	58,065
	122,704	158,720

4. Taxation (Continued)

Recognition and measurement

Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Tax consolidation

Mount Gibson and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the Tax Consolidation Regime. Using the Group allocation approach, each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity in addition to its own current and deferred tax amounts. The current tax liability of each group entity is then subsequently assumed by the parent entity.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed below.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement, the funding of tax within the Group is based on accounting profit. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under the accounting policy, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Key estimate: recoverability of potential deferred tax assets

The Group recognises deferred tax assets in respect of tax losses to the extent that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred tax assets recognised, which would in turn impact future financial results.

	2016 $'000	2015 $'000

5. Cash and Cash Equivalents

[a] Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

	2016 $'000	2015 $'000
Cash at bank and on hand	43,316	46,003
Short-term deposits	-	45,000
	43,316	**91,003**

Cash at bank earns interest at floating daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Recognition and measurement

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity period of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

[b] Reconciliation of the net profit/(loss) after tax to the net cash flows from operations

	2016 $'000	2015 $'000
Net profit/(loss) after tax	86,297	(911,422)
Adjustments for:		
Depreciation of non-current assets	11,971	36,866
Amortisation of deferred waste	-	20,117
Amortisation of other mine properties	1,070	14,208
Net (gain) on disposal of property, plant and equipment	(3,486)	(1,167)
Interest received	(9,667)	(12,209)
Exploration expenses written off	77	1,014
Share based payments	64	286
Borrowing costs	398	1,009
Consumables stock obsolescence	11	6,464
Net ore inventory movement	1,005	24,349
Impairment of debtors	1,278	964
Impairment of consumables inventories	8,111	339
Impairment of ore inventories	(10,258)	9,526
Impairment of mine properties	2,135	712,917
Impairment of property, plant and equipment	12,377	203,213
Impairment of deferred acquisition, exploration and evaluation	3,037	19,219
Unrealised loss on foreign exchange balances	395	999
Unrealised marked-to-market gain on foreign exchange derivatives	(231)	-
Unrealised marked-to-market gain on financial assets held for trading	(281)	-
Realised gain on sale of financial assets held for trading	(23)	-
Proceeds from seawall property insurance	(86,000)	-
Capitalised expenses	(730)	1,457
Changes in assets and liabilities		
Decrease in trade and other receivables	7,087	36,685
Decrease in inventory	2,193	5,816
(Increase)/decrease in prepayments and deposits	1,417	163
(Increase) in income tax receivable	(50)	-
Decrease in deferred tax assets	-	45,999
(Increase) in capitalised deferred waste	-	(92,683)
Increase/(decrease) in trade and other payables	(13,135)	(75,835)
Increase/(decrease) in current income tax liabilities	-	9,661

	2016 $'000	2015 $'000

5. Cash and Cash Equivalents (Continued)

	2016 $'000	2015 $'000
Changes in assets and liabilities (continued)		
Increase/(decrease) in deferred tax liabilities	-	(144,786)
Increase/(decrease) in restructure provision	(3,520)	(1,990)
Increase in road sealing provision	(233)	1,278
Increase/(decrease) in employee benefits	(1,267)	(5,161)
Increase/(decrease) in decommissioning provision	(4,209)	1,242
Increase in other provisions	(180)	363
Net Cash Flow from/(used in) Operating Activities	**5,653**	**(91,099)**

[c] Non-cash financing activities

The Group did not acquire property, plant and equipment by means of finance leases or hire purchase agreements during the financial year ended 30 June 2016 (2015: nil). The Group disposed of items of property, plant and equipment with an aggregate fair value of $99,120 (2015: $42,932) which were originally financed by means of hire purchase agreements.

6. Term Deposits and Subordinated Notes

	2016 $'000	2015 $'000
Current		
Term deposits	250,000	210,000
Subordinated notes	87,000	33,000
	337,000	**243,000**

Term deposits are made for varying periods of between three and twelve months depending on the term cash requirements of the Group, and earn interest at market term deposit rates.

Subordinated notes comprise tradeable floating interest rate instruments with maturities of up to ten years. These instruments are held in order to supplement the Group's treasury returns, and the Group intends and is able to realise these instruments as and when the Group's cash needs require.

Term deposits and subordinated notes are with various financial institutions with credit ratings from BBB+ to AA- (S&P) to minimise the risk of default of counterparties.

Recognition and measurement

Term deposits are classified as receivables and are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

7. Financial Assets Held for Trading

	2016 $'000	2015 $'000
Current		
Tradeable corporate bonds	19,771	-
	19,771	**-**

Financial assets held for trading comprise corporate bonds which are traded in active markets. The portfolio of bond investments is managed by a professional funds management entity. Mount Gibson is able to vary or terminate the portfolio management mandate at any time, with applicable notice periods.

Recognition and measurement

Financial assets held for trading are acquired principally for the purpose of selling or repurchasing in the short term. These are managed as part of a portfolio of identified financial instruments and are measured at fair value through profit or loss. Gains or losses from the sale of the financial assets are recognised in the income statement. Interest earned at market bond rates is recognised in the income statement on an effective yield basis.

Notes to the Consolidated Financial Report (continued)

	Notes	2016 $'000	2015 $'000
8. Trade and Other Receivables			
Current			
Trade debtors	[a][i]	5,404	11,366
Allowance for impairment	[b]	(2,242)	(964)
		3,162	10,402
Sundry debtors	[a][ii],[c]	37,120	2,990
Other receivables		1,264	1,962
		41,546	**15,354**

[a] Terms and conditions

Terms and conditions relating to the above financial instruments:

[i] Details of terms and conditions of trade debtors and credit sales are set out in the "recognition and measurement" note below.
[ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

[b] Impaired or past due financial assets

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. At 30 June 2016, trade debtors of $2,242,000 (2015: $964,000) in the Group were impaired.

At 30 June 2016, trade debtors of $52,000 (2015: $402,000) in the Group were past due but not impaired. These relate to a number of customers for whom there is no recent history of default or other indicators of impairment. At 16 August 2016, $32,000 of this amount remains outstanding.

With respect to trade debtors that are neither impaired nor past due, there are no indications as at the reporting date that the relevant debtors will not meet their payment obligations.

[c] Insurance receivable

As noted in note 2[b][i], the Company recognised a receivable as at 30 June 2016 of $34,558,000 in relation to outstanding settlement amounts for the Koolan seawall property insurance claim settled with the Company's insurers during the period.

	2016 $'000	2015 $'000
The ageing of trade debtors past due but not impaired is as follows:		
Less than 30 days overdue	-	-
Between 30 and 60 days overdue	28	398
Between 60 and 90 days overdue	23	3
Greater than 90 days overdue	1	1
	52	402
Trade debtors not impaired and not past due	3,110	10,000
	3,162	10,402

Recognition and measurement

Trade receivables

Trade receivables are recognised and carried at amortised cost less any allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect the debts. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency and default in payment. Any impairment is recognised in the income statement.

The vast majority of sales revenue is invoiced and received in US dollars (US$). The balance is invoiced and received in A$.

Generally, on presentation of shiploading documents and the provisional invoice, the customer settles 90-95% of the provisional sales invoice value within 10 days of receipt of shiploading documents and provisional invoice, and the remaining 5-10% is settled within 30 days of presentation of the final invoice. The final value is subject to minor adjustments based on the final analyses of weight, chemical and physical composition, and moisture content.

Other receivables

Other receivables are recorded at amortised cost, using the effective interest rate method, less any impairment. Interest is recognised by applying the effective interest rate method.

Notes to the Consolidated Financial Report (continued)

	Notes	2016 $'000	2015 $'000

9. Inventories

	Notes	2016 $'000	2015 $'000
Consumables – at cost		19,445	22,828
Allowance for stock obsolescence	[i]	(8,546)	(9,702)
Allowance for impairment of consumables inventories	[ii]	(8,424)	(339)
		2,475	12,787
Ore – at cost		27,992	28,999
Allowance for impairment of ore inventories	[iii]	(10,450)	(20,708)
		17,542	8,291
		20,017	**21,078**

[i] During the year, the Group raised an allowance for stock obsolescence of $31,000 (2015: $9,048,000) for consumables inventories that are considered slow moving and obsolete at Koolan Island and Extension Hill. Obsolete consumables inventories totalling $1,187,000 were written off during the year.

[ii] Consumables inventories held at Koolan Island and Extension Hill which are not considered obsolete have been assessed and written down to their recoverable values. In determining the recoverable value, factors such as current market pricing from suppliers, current location and condition have been considered. The impairment realised for the year, relating primarily to the Company's Koolan Island site (now on care and maintenance), was $8,111,000 (2015: $339,000).

[iii] At 30 June 2016, the Group assessed the carrying values of ore inventories stockpiled at each of the three mine sites. Assumptions used in the assessment include prevailing and anticipated iron ore prices and exchange rates, ore specifications, estimated costs to make the ore inventories available for sale, and associated sales and shipping freight costs.

Based on these assumptions, the following impairment write-backs/(loss) on ore inventories were recorded during the financial period:

	2016 $'000	2015 $'000
Tallering Peak	6,816	(6,084)
Extension Hill	-	-
Koolan Island	3,442	(3,442)
Total write-backs / (loss) on impairment	**10,258**	**(9,526)**

Recognition and measurement

Inventories are valued at the lower of cost and net realisable value.

Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced.

Consumable materials for plant and equipment are recognised as inventory. Consumable stocks are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Key estimate

Inventories are written down below cost to net realisable value if considered damaged, have become wholly or partially obsolete, or if their selling prices have declined. A new assessment is made of net realisable value in each subsequent period.

	Notes	2016 $'000	2015 $'000

10. Derivative Financial Assets

	Notes	2016 $'000	2015 $'000
Current			
Foreign currency forward contracts and options	33[b][i]	231	-
		231	**-**

Refer note 33 for details on derivative financial instruments.

Notes to the Consolidated Financial Report (continued)

11. Interest in Subsidiaries

Name	Country of Incorporation	Percentage of Equity Interest Held by the Group 2016 %	2015 %
Mount Gibson Mining Limited	Australia	100	100
Geraldton Bulk Handling Pty Ltd	Australia	100	100
Aztec Resources Limited	Australia	100	100
• Koolan Shipping Pty Ltd	Australia	100	100
• Brockman Minerals Pty Ltd	Australia	100	100
• Koolan Iron Ore Pty Ltd	Australia	100	100
• KIO SPV Pty Ltd	Australia	100	-

Entities subject to Class Order relief

Pursuant to Class Order 98/1418, relief has been granted to Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of financial reports. As a condition of the Class Order, Mount Gibson Iron Limited, Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd ("**Closed Group**") entered into a Deed of Cross Guarantee on 1 May 2009. The effect of this deed is that Mount Gibson Iron Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Mount Gibson Iron Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The Consolidated Income Statement and Balance Sheet of the Closed Group are set out below:

Consolidated Income Statement of the Closed Group

	2016 $'000	2015 $'000
CONTINUING OPERATIONS		
Sale of goods	235,188	315,644
Interest revenue	9,667	12,209
TOTAL REVENUE	244,855	327,853
Cost of sales	(195,448)	(319,109)
Impairment of ore inventories	3,442	(3,442)
GROSS PROFIT	52,849	5,302
Other income	91,783	7,536
Stock obsolescence	(31)	(9,048)
Impairment of consumables inventories	(7,719)	(339)
Impairment of mine properties	(2,135)	(712,917)
Impairment of property, plant and equipment	(7,955)	(178,544)
Impairment of deferred acquisition, exploration and evaluation	(3,037)	(19,219)
Impairment of non-current other receivables	(150,808)	(134,169)
Net unrealised marked-to-market gain/(loss)	512	-
Exploration expenses	(77)	(1,014)
Administration expenses	(19,906)	(30,979)
LOSS FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS	(46,524)	(1,073,391)
Finance costs	(1,760)	(2,929)
LOSS FROM CONTINUING OPERATIONS BEFORE TAX	(48,284)	(1,076,320)
Tax benefit/(expense)	(5,496)	91,583
LOSS) AFTER TAX FROM CONTINUING OPERATIONS	(53,780)	(984,737)
DISCONTINUED OPERATIONS		
Profit/(loss) after tax for the year from discontinued operations	5,991	(21,915)
LOSS AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY	(47,789)	(1,006,652)

Notes to the Consolidated Financial Report (continued)

Consolidated Balance Sheet of the Closed Group

	2016 $'000	2015 $'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	42,419	89,878
Term deposits	337,000	243,000
Financial assets held for trading	19,771	-
Trade and other receivables	41,176	14,972
Inventories	19,940	20,616
Prepayments	1,742	3,190
Derivative financial assets	231	-
Income tax receivable	50	-
TOTAL CURRENT ASSETS	**462,329**	**371,656**
NON-CURRENT ASSETS		
Other receivables	-	3,865
Property, plant and equipment	8,595	24,889
Deferred acquisition, exploration and evaluation costs	-	2,924
Mine properties	-	3,205
TOTAL NON-CURRENT ASSETS	**8,595**	**34,883**
TOTAL ASSETS	**470, 924**	**406,539**
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	31,062	45,087
Interest-bearing loans and borrowings	421	2,619
Provisions	5,629	13,561
TOTAL CURRENT LIABILITIES	**37,112**	**61,267**
NON-CURRENT LIABILITIES		
Other payables	3,701	-
Provisions	38,176	39,579
Interest-bearing loans and borrowings	-	119
TOTAL NON-CURRENT LIABILITIES	**41,877**	**39,698**
TOTAL LIABILITIES	**78,989**	**100,965**
NET ASSETS	**391,935**	**305,574**
EQUITY		
Issued capital	568,328	568,328
Accumulated losses	(1,157,500)	(1,243,797)
Reserves	981,107	981,043
TOTAL EQUITY	**391,935**	**305,574**

Notes to the Consolidated Financial Report (continued)

12. Property, Plant and Equipment

	Land		Plant and equipment		Plant and equipment under lease		Buildings		Capital works in progress		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost	654	654	293,444	308,894	57,050	73,657	138,708	138,047	2,166	2,420	492,022	523,672
Accumulated depreciation and impairment	(549)	(519)	(284,934)	(285,054)	(57,022)	(72,586)	(138,607)	(132,681)	(2,166)	(1,338)	(483,278)	(492,178)
Net carrying amount	**105**	**135**	**8,510**	**23,840**	**28**	**1,071**	**101**	**5,366**	**-**	**1,082**	**8,744**	**31,494**
Reconciliation												
Carrying amount at the beginning of the year	135	654	23,840	119,398	1,071	12,953	5,366	75,462	1,082	14,719	31,494	223,186
Additions	-	-	515	45,132	-	-	386	2,683	1,679	4,125	2,580	51,940
Transfers	-	-	757	11,455	-	(205)	60	798	(817)	(12,048)	-	-
Disposals	-	-	(883)	(1,249)	(99)	(42)	-	-	-	-	(982)	(1,291)
Depreciation expense	-	-	(9,583)	(23,927)	(567)	(6,773)	(1,821)	(6,166)	-	-	(11,971)	(36,866)
Depreciation capitalised	-	-	-	(22)	-	-	-	-	-	-	-	(22)
Impairment loss	(30)	(519)	(6,136)	(126,947)	(377)	(4,862)	(3,890)	(67,411)	(1,944)	(3,474)	(12,377)	(203,213)
Transfers to mine properties	-	-	-	-	-	-	-	-	-	(2,240)	-	(2,240)
Carrying amount at the end of the year	**105**	**135**	**8,510**	**23,840**	**28**	**1,071**	**101**	**5,366**	**-**	**1,082**	**8,744**	**31,494**
Assets pledged as security	105	135	8,510	23,840	28	1,071	101	5,366	-	1,082	8,744	31,494

Refer note 17 for details of security arrangements.

Property, plant and equipment has been assessed for impairment at balance date, with the carrying values of property, plant and equipment associated with the Koolan Island and Extension Hill operations written down to their fair values less costs to sell. The fair values of the property, plant and equipment have been assessed on a standalone basis by reference to market prices for similar assets and to the Group's recent experiences with asset sales (Level 3 on the fair value hierarchy). The write-downs reflect the current depressed market for plant and equipment sales, the isolation of the sites and the estimated removal, demobilisation and selling costs.

Notes to the Consolidated Financial Report (continued)

12. Property, Plant and Equipment (Continued)

Recognition and measurement

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation and amortisation

The cost of owned property, plant and equipment directly engaged in mining operations is written off over its expected economic life on a units-of-production method, in the establishment of which due regard is given to the life of the related area of interest. Plant and equipment under hire purchase or finance lease directly engaged in mining operations is written down to its residual value over the lesser of the hire purchase or finance lease term or useful life. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	5 - 20 years
Motor vehicles	4 - 5 years
Office equipment	3 - 5 years
Leasehold improvements	Shorter of lease term or useful life of 5 – 10 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Refer note 15 for further details on impairment.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Key judgement, estimates and assumptions

Units of production method of depreciation and amortisation

The Group applies the units of production method of depreciation and amortisation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available ore reserves, mineral resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining ore reserves, mineral resources and production capacity include the Group's history of converting mineral resources to ore reserves and the relevant timeframes, the complexity of metallurgy, markets and future developments. The Group uses economically recoverable mineral resources (comprising proven and probable ore reserves) to depreciate assets on a units of production basis. However, where a mineral property has been acquired and an amount has been attributed to the fair value of mineral resources not yet designated as ore reserves, the additional mineral resources may be taken into account. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of value-in-use (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value-in-use, future cash flow forecasts for each cash generating unit (i.e. each mine) are prepared utilising management's latest estimates of mine life, mineral resource and ore reserve recovery, operating and development costs, royalties and taxation, and other relevant cash inflows and outflows. Cash flow scenarios for a range of commodity prices and foreign exchange rates are assessed using internal and external market forecasts, and the present value of the forecast cash flows is determined utilising a discount rate based on industry weighted average cost of capital.

The Group's cash flows are most sensitive to movements in iron ore prices, the discount rate and key operating costs. Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment assessment or losses recognised, if any, which could in turn impact future financial results.

	Notes	2016 $'000	2015 $'000

13. Deferred Acquisition, Exploration and Evaluation Costs

	Notes	2016 $'000	2015 $'000
Deferred acquisition, exploration and evaluation – at cost		20,669	22,143
Allowance for impairment		(20,669)	(19,219)
		-	**2,924**
Reconciliation			
Carrying amount at beginning of the year		2,924	21,863
Additions		840	4,294
Write-back of accrued acquisition costs		-	(3,000)
Impairment loss	[i]	(3,037)	(19,219)
Disposals	[ii]	(650)	-
Exploration expenditure written off		(77)	(1,014)
Carrying amount at the end of the year		-	2,924

[i] The Group reviews the carrying value of its assets at each balance date. During the year, impairment losses totalling $3,037,000 were recognised in relation to the Shine Project ($29,000), the Fields Find Project ($42,000) and the Iron Hill Project ($2,966,000).

An assessment of the Shine Project indicated that the carrying amount of the asset was unlikely to be recovered from its development or sale at current iron ore prices and exchange rates. Accordingly, the carrying amount for the Shine Project was fully impaired as at 30 June 2016.

The Group's deferred acquisition, exploration and evaluation costs for the Iron Hill Project were assessed at 30 June 2016. The Company continues to evaluate possible mine plans for the Iron Hill Project and, at balance date, had concluded that the potential future economics of the Project would likely be similar to those of the Extension Hill Main Pit given Iron Hill's similar mineralisation and, other than the need for a new 3km haul road, planned usage of the same processing and transport infrastructure. Given that the carrying value of the Extension Hill operation is being impaired (refer notes 14 and 15), the Company has determined that the existing Iron Hill carrying value is not recoverable at current iron ore prices and exchange rates, either through its development or sale, and therefore should be fully impaired. Accordingly, the carrying amount for the Iron Hill Project of $2,966,000 was fully impaired as at 30 June 2016.

[ii] During the year, the Group sold the Fields Find Project to a third party for $650,000. The carrying value of the Fields Find Project was impaired to $650,000 at the time of sale, resulting in no gain or loss recognised on the sale of this asset for the year ended 30 June 2016.

Recognition and measurement

Acquisition costs

Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas, the value of the area of interest is written off to the income statement or provided against.

Key estimates and assumptions : impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of mineral resources and ore reserves, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable ore reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

Notes to the Consolidated Financial Report (continued)

	2016 $'000	2015 $'000

14. Mine Properties

	2016 $'000	2015 $'000
Mine development expenditure	1,537,337	1,537,337
Accumulated amortisation and impairment	(1,537,337)	(1,534,132)
	-	**3,205**

	Koolan Island		Tallering Peak		Extension Hill		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Reconciliation	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deferred waste								
Carrying amount at the beginning of the period	-	354,204	-	-	-	-	-	354,204
Deferred waste capitalised	-	92,683	-	-	-	-	-	92,683
Amortisation expensed	-	(20,117)	-	-	-	-	-	(20,117)
Impairment loss (note 15)	-	(426,770)	-	-	-	-	-	(426,770)
Carrying amount at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other mine properties								
Carrying amount at the beginning of the period	-	276,877	-	-	3,205	24,650	3,205	301,527
Additions	-	-	-	-	-	-	-	-
Mine rehabilitation – revised estimate adjustment	-	181	-	-	-	(388)	-	(207)
Transferred from capital works in progress	-	2,240	-	-	-	-	-	2,240
Amortisation expensed	-	(8,392)	-	-	(1,070)	(5,816)	(1,070)	(14,208)
Impairment loss (note 15)	-	(270,906)	-	-	(2,135)	(15,241)	(2,135)	(286,147)
Carrying amount at the end of the period	**-**	**-**	**-**	**-**	**-**	**3,205**	**-**	**3,205**
Total mine properties	**-**	**-**	**-**	**-**	**-**	**3,205**	**-**	**3,205**

The security pledged for financing facilities includes mining mortgages over the mining tenements and contractual rights to mine hematite deposits owned by the Group (refer note 17).

Notes to the Consolidated Financial Report (continued)

14. Mine Properties (Continued)

Recognition and measurement

Deferred stripping

As part of its mining operations, the Group incurs mining stripping (waste removal) costs both during the development and production phase of its operations.

When stripping costs are incurred in the development phase of a mine before the production phase commences (development stripping), such expenditure is capitalised as part of the cost of constructing the mine and subsequently amortised over its useful life using a units of production method, in accordance with the policy applicable to mine properties. The capitalisation of development stripping costs ceases when the mine or relevant component thereof is commissioned and ready for use as intended by management.

Waste development costs incurred in the production phase creates two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset within mine properties.

If the costs of the inventory produced and the stripping asset are not separately identifiable, the allocation is undertaken based on the waste-to-ore stripping ratio for the particular ore component concerned. If mining of waste in a period occurs in excess of the expected life-of-component waste-to-ore strip ratio, the excess is recognised as part of the stripping asset. Where mining occurs at or below the expected life-of-component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

Amortisation is provided on the units-of-production method over the life of the identified orebody component. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves).

Other mine properties

Other mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Group in relation to areas of interest in which the mining of mineral resources has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method over the life of the mine, with separate calculations being made for each mineral resource. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment expenses are recognised to the extent that the carrying amount of the mine properties asset exceeds its estimated recoverable amount. Refer to note 15 for further details on impairment.

Key judgement and estimate

Deferred waste

Significant judgement is required in determining the waste capitalisation ratio for each component of the mine. Factors that are considered include:

- Any proposed changes in the design of the mine;
- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Identifiable components of orebody;
- Future production levels;
- Impacts of regulatory obligations and taxation legislation;
- Future commodity prices; and
- Future cash costs of production.

Impairment of capitalised mine development expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of mineral resources and ore reserves, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

The Group regularly reviews the carrying values of its mine development assets in the context of internal and external consensus forecasts for commodity prices and foreign exchange rates, with the application of appropriate discount rates for the assets concerned.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made. Capitalised mine development expenditure is assessed for recoverability along with property, plant and equipment as described below.

Notes to the Consolidated Financial Report (continued)

15. Impairment of Assets

The Group reviews the carrying value of the assets of each Cash Generating Unit ("**CGU**") at each balance date. During the year ended 30 June 2016, the following material events occurred which were considered indicators of impairment:

- the benchmark price of iron ore, being the Company's sole product, remained at depressed levels; and
- as at 30 June 2016, the market capitalisation of the Group was below the book value of its equity.

In respect of the Koolan Island CGU, a recoverable amount of nil was previously determined at 30 June 2015 and an impairment expense of $844,430,000 recognised in the 2014/15 financial year. The Group has not identified any indicators of impairment reversal in respect of the Koolan Island CGU as at 30 June 2016.

Accordingly, the Group has performed an impairment assessment on the Extension Hill CGU which comprises assets used in the mining, crushing, transport and sale of iron ore. Based on this assessment, along with the fair value less cost to dispose ("**FVLCD**") assessment of property, plant and equipment at both CGUs (refer note 12), the following impairment amounts have been recognised in the financial report:

	2016 $'000	2015 $'000
Koolan Island	2,893	844,430
Extension Hill	11,619	71,700
Total loss on impairment of non-current assets	**14,512**	**916,130**

The above impairment values have been allocated proportionately to each CGU's non-current assets as follows:

	Koolan Island		Extension Hill		Total	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Deferred waste	-	426,770	-	-	-	426,770
Other mine properties	-	270,906	2,135	15,241	2,135	286,147
Total mine properties	-	697,676	2,135	15,241	2,135	712,917
Property, plant and equipment	2,893	146,754	9,484	56,459	12,377	203,213
Total impairment of non-current assets	**2,893**	**844,430**	**11,619**	**71,700**	**14,512**	**916,130**

The Group assessed the recoverable amount of the Extension Hill CGU as at 30 June 2016 which is considered to be the higher of the FVLCD and Value-In-Use ("**VIU**").

Extension Hill

The Group has used the VIU method for the Extension Hill CGU where VIU is assessed as the present value of the future cash flows expected to be derived from the operation. The following key assumptions were used in determining the VIU for the Extension Hill CGU:

- Cashflow forecasts were made based on recent actual performance, budgets and anticipated revenues and estimated operating and capital costs over the relatively short remaining life of the mine;
- Discount rate of 12% (nominal, before and after tax);
- Revenue and cost inflation estimates of 2.0% per year; and
- Base case iron ore price forecast for the 62% Fe benchmark fines CFR price (northern China) of US$55/dmt at an exchange rate of A$1.00/US$0.73, with sensitivities undertaken for a range of these inputs.

As at 30 June 2016, the recoverable amount of the Extension Hill CGU calculated on this basis is nil.

The cashflow estimates for the Extension Hill CGU are most sensitive to changes in iron ore prices and the A$/US$ foreign exchange rate. It is estimated that changes in these key assumptions would impact recoverable amounts as 30 June 2016 as follows:

- An increase in the benchmark 62% Fe fines CFR iron ore price by 10% to US$60.50/dmt would increase the recoverable amount by approximately $16 million; and
- A reduction in the A$/US$ exchange rate by 10% to A$1.00/US$0.657 would increase the recoverable amount by approximately $14 million.

Koolan Island

The Koolan Island CGU had a recoverable amount of nil as at 30 June 2015 and an impairment expense of $844,430,000 was recognised in the 2014/15 financial year. As noted above, there have been no indicators of impairment reversal as at 30 June 2016 and as such an impairment assessment has not been performed.

Refer to note 12 for details regarding the FVLCD of the Group's property, plant and equipment.

15. Impairment of Assets (Continued)

Recognition and measurement

Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value-in-use. Recoverable amount is determined for an individual asset, unless the asset's value-in-use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In allocating an impairment loss, the carrying amount of an individual asset is not taken below the highest of:

(a) Its fair value less costs of disposal (if measurable); and
(b) Its value-in-use (if determinable).

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only where there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to the Consolidated Financial Report (continued)

	Notes	2016 $'000	2015 $'000

16. Trade and Other Payables

	Notes	2016 $'000	2015 $'000
Current			
Trade creditors	[a]	13,734	17,967
Accruals and other payables	[a]	22,495	31,697
		36,229	**49,664**

[a] Current trade creditors and other payables are non-interest bearing and are normally settled on 30 day terms.

Recognition and measurement

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

17. Interest-Bearing Loans and Borrowings

	Notes	2016 $'000	2015 $'000
Current			
Hire purchase facility	[a]	-	2,044
Insurance premium funding facility	[b]	421	575
		421	**2,619**
Non-Current			
Hire purchase facility	[a]	-	119
		-	**119**

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Notes	2016 $'000	2015 $'000
Total facilities:			
• Hire purchase facility	[a]	-	2,163
• Insurance premium funding facility	[b]	421	575
• Performance bonding facility	[c]	55,000	65,000
		55,421	**67,738**
Facilities used at reporting date:			
• Hire purchase facility		-	2,163
• Insurance premium funding facility		421	575
• Performance bonding facility		25,829	41,788
		26,250	**44,526**
Facilities unused at reporting date:			
• Hire purchase facility		-	-
• Insurance premium funding facility		-	-
• Performance bonding facility		29,171	23,212
		29,171	**23,212**

17. Interest-Bearing Loans and Borrowings (Continued)

Terms and conditions relating to the above financial facilities:

[a] **Hire Purchase Facility**

Hire purchase arrangements have been entered into by the Group via Master Lease agreements with Komatsu Corporate Finance Pty Limited and National Australia Bank Limited. At 30 June 2016, all of the hire purchase liabilities have been repaid.

[b] **Insurance Premium Funding Facility**

Insurance premium arrangements have been entered into by the Group to fund its annual insurance premiums. Interest is charged at 1.86% pa. The loan is repayable monthly with the final instalment due in July 2016.

[c] **Performance Bonding Facility**

In May 2011, the Company entered into a Facility Agreement comprising a Corporate Loan facility and a Performance Bonding facility. The undrawn Corporate Loan facility was cancelled in full in April 2013. The Performance Bonding facility, which totals $55.0 million and was drawn to $25.9 million as at 30 June 2016, expires on 30 June 2017 unless extended prior to this date.

The security pledge for the Performance Bonding Facility is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Pty Ltd, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite iron ore at Extension Hill.

Recognition and measurement

Finance leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

		2016 $'000	2015 $'000

18. Provisions

		2016 $'000	2015 $'000
Current			
Employee benefits		2,708	3,995
Road resealing	[i]	1,878	2,111
Restructure	[ii]	-	3,520
Decommissioning rehabilitation	[iii]	1,100	4,008
Other		105	168
		5,791	**13,802**
Non-Current			
Employee benefits		191	171
Decommissioning rehabilitation	[iii]	37,917	39,218
Other		78	195
		38,186	**39,584**

Movement in provisions:

[i] Road Resealing

	2016 $'000	2015 $'000
Carrying amount at beginning of the year	2,111	833
Provision for period	96	1,278
Amounts utilised during the period	(329)	-
Carrying amount at end of the year	1,878	2,111

This provision relates to the forecast cost of roadworks associated with the Tallering Peak and Extension Hill mine sites. Payments to the relevant local government authorities are made annually.

[ii] Restructure

	2016 $'000	2015 $'000
Carrying amount at beginning of the year	3,520	5,510
Provision for period	-	5,272
Amounts utilised during the period	(3,520)	(7,262)
Carrying amount at end of the year	-	3,520

This provision relates to the forecast costs associated with release of personnel on the wind down and/or closure of mining sites.

[iii] Decommissioning Rehabilitation

	2016 $'000	2015 $'000
Carrying amount at beginning of the year	43,226	44,802
Revised estimate adjustment	(4,563)	(1,707)
Amounts utilised during the period	(663)	(1,111)
Interest accretion on rehabilitation provision	1,017	1,242
Carrying amount at end of the year	39,017	43,226

This provision represents the present value of decommissioning and rehabilitation costs for the Tallering Peak, Koolan Island and Extension Hill sites. The cost estimates forming the basis of the provisions were prepared as at the balance date by independent consultants Preston Consulting Pty Ltd which specialise in mine closure planning and mine rehabilitation cost estimates. The timing of decommissioning and rehabilitation expenditure is dependent on the life of the mines and on the timing of the rehabilitation requirements, which may vary in the future.

	2016 $'000	2015 $'000
Tallering Peak	1,100	4,008
Koolan Island	29,115	31,670
Extension Hill	8,802	7,548
	39,017	43,226

18. Provisions (Continued)

Recognition and measurement

Employee benefits

Wages, salaries, sick leave and other employee benefits

Liabilities for wages and salaries, including non-monetary benefits and other employee benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Annual leave and long service leave

The Group expects its annual leave benefits to be settled wholly within 12 months of each reporting date. They are measured at the amount expected to be paid when the liabilities are settled.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to future wage and salary levels, experience of employee departures, and periods of service. Future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Rehabilitation costs

Long-term environmental obligations are based on the Group's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

Restructuring provision

Restructuring provisions are recognised by the Group only when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Other Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the balance date.

Key estimate : mine rehabilitation provision

The Group assesses its mine rehabilitation provision annually in accordance with the accounting policy stated above. Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in anticipated rehabilitation activities and costs, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

	2016 $'000	2015 $'000

19. Issued Capital

[a] Ordinary shares

	2016 $'000	2015 $'000
Issued and fully paid	**568,328**	**568,328**

		2016 Number of Shares	2016 $'000	2015 Number of Shares	2015 $'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		1,090,805,085	568,328	1,090,584,232	568,328
Exercise of Performance Rights	[i]	474,350	-	220,853	-
End of the financial year		**1,091,279,435**	**568,328**	**1,090,805,085**	**568,328**

[i] On 4 January 2016, 474,350 shares were issued as a result of the vesting and exercise of the equivalent number of Performance Rights.

[c] Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Effective from 1 July 1998, the Corporations legislation abolished the concept of authorised capital and par values. Accordingly, the Company does not have authorised capital nor a par value in respect of its issued shares.

[d] Share options

As at 30 June 2016, there were no options on issue (2015: nil) – see note 23(b).

Share options carry no right to dividends and no voting rights.

[e] Performance rights

During the year ended 30 June 2016, no Performance Rights were issued.

A total of 474,350 Performance Rights vested during the year upon the Board exercising it discretion under the Company's Performance Rights Plan and, accordingly, 474,350 ordinary shares were issued on 4 January 2016.

As at 30 June 2016, there were 711,500 Performance Rights on issue (2015: 1,185,850) – see note 23(c).

[f] Capital management

The primary objectives of the Group's capital management program are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or other securities.

No changes were made in the objectives, policy or processes for managing capital during the years ended 30 June 2016 and 30 June 2015.

	Notes	2016 $'000	2015 $'000

20. Reserves

Share based payments reserve	[a]	20,037	19,973
Net unrealised gains reserve	[b]	-	-
Dividend distribution reserve	[c]	964,262	964,262
Other reserves	[d]	(3,192)	(3,192)
		981,107	**981,043**

[a] Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Balance at the beginning of the year		19,973	19,687
Share based payments		64	286
Balance at the end of the year		20,037	19,973

[b] Net unrealised gains reserve

This reserve records movement for available-for-sale financial assets to fair value and gains and losses on hedging instruments classified as effective cash flow hedges.

Balance at the beginning of the year		-	1,676
Net gains/(losses) on cash flow hedges		-	(2,395)
Deferred income tax on cash flow hedges		-	719
Balance at the end of the year		-	-

[c] Dividend distribution reserve

This reserve is used to record profits from prior income years for the purpose of future dividend distribution by the Company.

Balance at the beginning of the year		964,262	-
Transferred from retained earnings	21	-	964,262
Balance at the end of the year		964,262	964,262

[d] Other reserves

This reserve is used to record the gain or loss arising from the sale or acquisition of non-controlling interests to or from third party investors.

Balance at the beginning of the year		(3,192)	(3,192)
Movement during the period		-	-
Balance at the end of the year		(3,192)	(3,192)

21. Accumulated Losses

Balance at the beginning of the year		(1,243,797)	675,519
Dividends paid during the period	25[a]	-	(43,632)
Transferred to reserve	20[c]	-	(964,262)
Net profit/(loss) attributable to members of the Company		86,297	(911,422)
Balance at the end of the year		**(1,157,500)**	**(1,243,797)**

	Notes	2016 $'000	2015 $'000
22. Expenditure Commitments			
[a] Exploration Expenditure Commitments	[i]		
Minimum obligations not provided for in the financial report and are payable:			
• Not later than one year		886	1,351
• Later than one year but not later than five years		1,423	3,320
• Later than five years		1,042	1,780
		3,351	**6,451**
[b] Operating Lease Commitments	[ii]		
Minimum lease payments			
• Not later than one year		1,814	1,334
• Later than one year but not later than five years		1,982	3,052
• Later than five years		-	-
		3,796	**4,386**
[c] Hire Purchase Commitments	[iii]		
Minimum lease payments			
• Not later than one year		-	2,129
• Later than one year but not later than five years		-	120
Total minimum lease payments		-	2,249
Future finance charges		-	(86)
		-	**2,163**
Total hire purchase liability accrued for:			
Current			
Hire purchase facility	17	-	2,044
Non-Current			
Hire purchase facility	17	-	119
		-	**2,163**
[d] Property, plant and equipment commitments	[iv]		
Commitments contracted for at balance date but not recognised as liabilities			
• Not later than one year		264	198
• Later than one year but not later than five years		-	-
		264	**198**
[e] Contractual commitments	[v]		
Commitments for the payment of other mining and transport contracts:			
• Not later than one year		24,764	61,047
• Later than one year but not later than five years		-	2,689
		24,764	**63,736**

[i] In order to maintain current rights to explore and mine the tenements at its various mines and projects, the Group is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Mines and Petroleum.

[ii] Operating leases relate to leases for office space with an initial term of 5 years and leases for machinery which have an average term of 5 years.

[iii] During the year ended 30 June 2016, the Group paid out all of its hire purchase liabilities.

[iv] The Group has contractual commitments to purchase property, plant and equipment at Koolan Island and Extension Hill.

[v] Amounts disclosed as contractual commitments relate primarily to contracts in respect of mining and transport that are not recognised as liabilities. The Group has various supplier agreements in place for its Extension Hill operation, some of which contain financial obligations for the Group upon early termination thereof. As at 30 June 2016, these early termination obligations were estimated to total approximately $15,000,000 (2015: $45,000,000) related mostly to infrastructure access and ore transport. These obligations reduce progressively with cumulative transport tonnages over the life of the Extension Hill operation.

	Notes	2016 $'000	2015 $'000

23. Share-Based Payment Plans

(a) Recognised share-based payment expense

Expense arising from equity-settled share-based payment transactions	3[d]	64	286

The share-based payment plans are described below. There have been no cancellations of any of the plans during 2016 and 2015.

(b) Employee option scheme

An employee option scheme has been established where the Company may, at the discretion of the Board, grant options over the ordinary shares of the Company. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the Directors of the Company. All Directors, officers and employees are eligible for this scheme. No options were issued during the years ended 30 June 2015 or 2016. As at balance date, no options over unissued shares were on issue.

(c) Performance Rights Plan

The Company has established a Performance Rights Plan. Rights are granted at no cost to recipients and convert (vest) into ordinary shares on completion by the recipient of minimum periods of continuous service and the satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("**TSR**") measured against a comparator group of companies over specified periods.

The vesting scale applicable to the Company's TSR performance is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76th percentile	100%
> 51st percentile and ≤76th percentile	Pro rata allocation
51st percentile	50%
<51st percentile	0%

Information with respect to the number of performance rights granted and issued is as follows:

	2016 No. of Performance Rights	2015 No. of Performance Rights
Balance at beginning of year	1,185,850	1,832,688
- granted	-	-
- exercised	(474,350)	(220,853)
- lapsed/forfeited	-	(425,985)
Balance at year end	**711,500**	**1,185,850**

At 30 June 2016, there were 711,500 Performance Rights on issue, of which 533,625 Performance Rights vested on 1 July 2016 in accordance with the terms of the vesting conditions.

23. Share-Based Payment Plans (Continued)

Recognition and measurement

Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("**equity-settled transactions**").

Options

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan.

The cost of these options is measured by reference to their fair value at the date at which they are granted. The fair value is determined by using a binomial model.

In valuing these options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

Performance rights

There is a Mount Gibson Iron Limited Performance Rights Plan ("**PRP**"). The PRP enables the Company to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives.

The cost of these Performance Rights is measured by reference to the fair value at the date at which they are granted. The fair value is determined using either a Black-Scholes or Monte Carlo option valuation model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("**vesting date**").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options and Performance Rights is reflected as additional share dilution in the computation of earnings per share.

24. Earnings Per Share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts is calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2016 $'000	**2015 $'000**
Profit/(loss) used in calculating basic and diluted earnings/(loss) per share:		
Continuing operations	80,306	(889,507)
Discontinued operations	5,991	(21,915)
Profit/(loss) attributable to ordinary equity holders of the Company	86,297	(911,422)
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share	1,091,037,076	1,090,805,085
Effect of dilution		
- Performance rights	533,625	-
Weighted average number of ordinary shares used in calculating diluted earnings/(loss) per share	1,091,570,701	1,090,805,085
Earnings/(loss) per Share (cents per share):		
Basic earnings/(loss) per share	7.91	(83.56)
Diluted earnings/(loss) per share	7.91	(83.56)

Conversions, calls, subscriptions or issues after 30 June 2016

No options were outstanding at 30 June 2016. On 1 July 2016, 533,625 ordinary shares were issued upon vesting and exercising of the equivalent number of Performance Rights in accordance with the terms of the vesting conditions. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the balance date and before the completion of this report.

A total of 177,875 performance rights on issue as at 30 June 2016 were not included in the calculation of diluted earnings per share as they have not met the vesting test as at the date of this report.

Recognition and measurement

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

	2016 $'000	2015 $'000

25. Dividends Paid and Proposed

Declared and paid during the year:

[a] Dividends on ordinary shares:

	2016 $'000	2015 $'000
Final fully franked dividend for 2014: 4.0 cents per share	-	43,632
	-	**43,632**

[b] Dividends not recognised at the end of the reporting period:

A final dividend for the 2015/16 financial year has not been declared.

[c] Franked dividends:

	2016 $'000	2015 $'000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30%	60,774	61,485
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	-
	60,774	**61,485**
The amount of franking credits available for future reporting periods: Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	-	-
	60,774	**61,485**

Tax rates

The tax rate at which paid dividends have been franked is 30%.

26. Contingent Liabilities

1. The Group has a Performance Bonding facility drawn to a total of $25,829,000 as at balance date (2015: $41,788,000). The performance bonds secure the Group's obligations relating primarily to environmental matters and historical infrastructure upgrades.
2. Certain claims arising with customers, employees, consultants, and contractors have been made by or against certain controlled entities in the ordinary course of business, some of which involve litigation or arbitration. The Directors do not consider the outcome of any of these claims will have a material adverse impact on the financial position of the consolidated entity.

27. Key Management Personnel

[a] Compensation of Key Management Personnel

	2016 $	2015 $
Short-term	2,569,717	2,602,432
Post employment	185,326	171,361
Long-term	14,935	5,223
Share-based payment	64,152	286,211
Termination payment	-	471,229
	2,834,130	**3,536,456**

[b] Loans to Specified Key Management Personnel

There were no loans to key management personnel during the year.

[c] Other Transactions and Balances with Key Management Personnel

There were no other transactions and balances with key management personnel during the year.

28. Related Party Transactions

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Director-related entity transactions

Sales

During all or part of the year Mr Li was a director of Shougang Concord International Trading Pty Ltd (**SCIT**), and Mr Lee and Mr Ferguson were directors of APAC Resources Limited (**APAC**).

The following sale agreements were in place with director-related entities during the period:

- The sale to SCIT of 80% of iron ore from Koolan Island's available mined production over the life of mine.
- The sale to a subsidiary of APAC of 20% of iron ore from Koolan Island's available mined production of the life of mine.
- One ad hoc spot sale of iron ore from Extension Hill.

Pursuant to these sales agreements, during the financial year, the Group:

- Sold 290,196 WMT (2015: 394,327 WMT) of iron ore to APAC; and
- Sold 1,234,131 WMT (2015: 1,364,123 WMT) of iron ore to SCIT.

Amounts recognised at the reporting date in relation to director-related entity transactions:

	2016 $'000	2015 $'000
Assets and Liabilities		
Current Assets		
Trade receivables – APAC	819	-
Trade receivables – SCIT	-	2,105
Total trade receivables	819	2,105
Total Assets	**819**	**2,105**
Current Liabilities		
Trade payables – APAC	-	129
Trade payables – SCIT	-	-
Total trade payables	-	129
Total Liabilities	**-**	**129**
Net Sales Revenue		
Net sales revenue – APAC	14,281	25,921
Net sales revenue – SCIT	48,559	66,857
Total Net Sales Revenue	**62,840**	**92,778**

Apart from the above, there are no director-related entity transactions other than those specified in note 27.

29. Auditor's Remuneration

	2016 $	2015 $
Amounts received or due and receivable by EY for:		
▪ An audit or review of the financial report of the entity and any other entity in the consolidated entity	202,395	222,480
▪ Other services in relation to the entity and any other entity in the consolidated entity	3,600	3,600
	205,995	**226,080**

	2016 $'000	2015 $'000

30. Discontinued Operations

The Tallering Peak operation is reported as a discontinued operation in this financial report. Mining was completed in June 2014 however sale of the remnant low grade ore is ongoing.

[a] Profit/(loss) from discontinued operations

The financial results of Tallering Peak operation for the year are presented below:

	2016 $'000	2015 $'000
Revenue	5,346	8,987
Cost of sales	(6,191)	(21,113)
Impairment write-back/(loss) on ore inventories	6,816	(6,084)
Gross profit/(loss)	5,971	(18,210)
Impairment/obsolescence write-back/(loss) on consumables inventories	20	(878)
Profit/(loss) before tax and finance costs from discontinued operations	5,991	(19,088)
Finance costs	-	(2)
Profit/(loss) before tax from discontinued operations	5,991	(19,090)
Income tax benefit/(expense)	-	(2,825)
Net profit/(loss) after tax from discontinued operations	5,991	(21,915)
Earnings/(loss) per share (cents per share):		
▪ basic earnings/(loss) per share	0.55	(2.01)
▪ diluted earnings/(loss) per share	0.55	(2.01)

[b] Cash flow from discontinued operations

The net cash flows incurred by Tallering Peak operation are as follows:

	2016 $'000	2015 $'000
Operating	1,568	(18,196)
Investing	-	-
Financing	-	(231)
Net cash inflow/(outflow) from discontinued operations	**1,568**	**(18,427)**

Notes to the Consolidated Financial Report (continued)

31. Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the executive management team in assessing performance and in determining the allocation of resources.

For management purposes, the Group has organised its operating segments into two reportable segments as follows:

- Extension Hill segment – this segment includes the mining, crushing, transportation and sale of iron ore.
- Koolan Island segment – this segment includes the mining, crushing and sale of iron ore with the final shipment in March 2016, thereafter the site has been placed on care and maintenance.

Operating results for each reportable segment are reviewed separately by management for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial statements.

There have been no inter-segment transactions.

Items that are managed on a Group basis and are not allocated to segments as they are not considered part of core operations of any segment are as follows:

- Finance costs and revenue
- Interest revenue
- Foreign exchange gains / (losses)
- Corporate costs

Operating results for discontinued operations have been excluded from the segment results below.

During the year ended 30 June 2016, revenue received from the sale of iron ore comprised purchases by the following buyers who each on a proportionate basis equated to greater than 10% of total sales for the period:

Customer	2016 $'000
# 1	85,757
# 2	48,613
# 3	33,845
Other	66,591
	234,806

During the year ended 30 June 2015, revenue received from the sale of iron ore comprised purchases by the following buyers who each on a proportionate basis equated to greater than 10% of total sales for the period:

Customer	2015 $'000
# 1	102,471
# 2	65,966
# 3	64,174
Other	90,811
	323,422

Revenue from external customers by geographical location is based on location of the customer. All iron ore has been shipped to China during the year ended 30 June 2016. In the 2015 financial year, approximately 2% of the iron ore sales revenue was sold on a mine gate sale basis to a local buyer, with the vast majority of the balance shipped to China.

All segment assets are located within Australia.

Notes to the Consolidated Financial Report (continued)

31. Segment Information (Continued)

	Extension Hill		Koolan Island		Unallocated*		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue								
Revenue from sale of iron ore	175,214	204,307	59,974	111,337	-	-	235,188	315,644
Interest revenue	-	-	-	-	9,667	12,209	9,667	12,209
Segment revenue	**175,214**	**204,307**	**59,974**	**111,337**	**9,667**	**12,209**	**244,855**	**327,853**
Segment result								
Earnings/(loss) before impairment, interest, tax, depreciation and amortisation	25,558	32,306	8,210	535	82,747	(9,740)	116,515	23,101
Impairment losses	(13,443)	(71,700)	(5,738)	(848,211)	(3,037)	(19,219)	(22,218)	(939,130)
Earnings/(loss) before interest, tax, depreciation and amortisation	12,115	(39,394)	2,472	(847,676)	79,710	(28,959)	94,297	(916,029)
Depreciation and amortisation	(7,068)	(22,921)	(5,224)	(46,801)	(700)	(735)	(12,992)	(70,457)
Segment result	**5,047**	**(62,315)**	**(2,752)**	**(894,477)**	**79,010**	**(29,694)**	**81,305**	**(986,486)**
Finance costs							(1,760)	(2,929)
Profit/(loss) before tax and discontinued operations							**79,545**	**(989,415)**
Items included in segment result:								
Impairment of consumables inventories	1,824	-	6,287	339	-	-	8,111	339
Impairment (write-backs)/loss on ore inventories	-	-	(3,442)	3,442	-	-	(3,442)	3,442
Impairment of property, plant and equipment	9,484	56,459	2,893	146,754	-	-	12,377	203,213
Impairment of mine development	2,135	15,241	-	697,676	-	-	2,135	712,917
Impairment of exploration and evaluation expenditure	-	-	-	-	3,037	19,219	3,037	19,219
	13,443	71,700	5,738	848,211	3,037	19,219	22,218	939,130

* 'Unallocated' includes interest revenue ($9,667,000), Koolan seawall property damage insurance settlement ($86,000,000) and corporate expenses such as head office salaries and wages.

Notes to the Consolidated Financial Report (continued)

31. Segment Information (Continued)

	Extension Hill		Koolan Island		Unallocated		Consolidated	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Segment assets								
Current financial assets	5,838	12,424	4,932	6,331	431,094	330,602	441,864	349,357
Other current assets	17,747	9,500	1,839	12,452	2,368	2,430	21,954	24,382
Property, plant and equipment	1,752	7,897	5,912	15,306	1,080	8,291	8,744	31,494
Deferred acquisition, exploration and evaluation	-	2,274	-	-	-	650	-	2,924
Mine properties	-	3,205	-	-	-	-	-	3,205
Total assets	**25,337**	**35,300**	**12,683**	**34,089**	**434, 542**	**341,973**	**472,562**	**411,362**
Segment liabilities								
Financial liabilities	23,958	32,362	1,652	11,641	11,040	8,399	36,650	52,402
Other liabilities	11,179	9,916	29,397	35,777	3,401	7,693	43,977	53,386
Total liabilities	**35,137**	**42,278**	**31,049**	**47,418**	**14,441**	**16,092**	**80,627**	**105,788**
Net assets/(liabilities)	**(9,800)**	**(6,978)**	**(18,366)**	**(13,329)**	**420,101**	**325,881**	**391,935**	**305,574**
Capital expenditure	2,126	2,983	409	47,914	45	6,330	2,580	57,227

Notes to the Consolidated Financial Report (continued)

32. Events After the Balance Sheet Date

As at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

33. Financial Instruments

[a] Financial risk management objectives

The Group's principal financial instruments, other than derivatives, comprise bank and equipment finance arrangements, cash and short-term deposits, and financial assets held for trading.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivatives transactions, principally forward currency contracts, and from time to time also enters into foreign currency collar options and interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, commodity price risk and liquidity risk. The Board reviews and agrees management's recommended policies for managing each of these risks, as summarised below and in accordance with the Company's Financial Risk Management Policy.

[b] Foreign currency risk

The Group is exposed to the risk of adverse movement in the A$ compared to the US$ as its iron ore sales receipts are predominantly denominated in US$. The Group has used derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US$ sales transactions in accordance with its risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings and cashflows attributable to changes in the A$/US$ exchange rate and to protect against adverse movements in this rate.

The Group recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Group applies hedge accounting to forward foreign currency contracts and collar option contracts that meet the criteria of cash flow hedges.

During the year ended 30 June 2016, there were no US dollar foreign exchange forward contract deliveries.

At 30 June 2016, the notional amount of the foreign exchange hedge book totalling US$15,000,000 is made up exclusively of collar option contracts with maturity dates due in the 5 months ended 28 November 2016 and with a cap price of A$1.00/US$0.7500 and a floor price of A$1.00/US$0.6850.

As at 30 June 2016, the marked-to-market unrealised gain on the total outstanding US dollar foreign exchange hedge book of US$15,000,000 was A$231,000.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The Group uses the following derivative instruments to manage foreign currency risk from time to time as business needs and conditions dictate:

Instrument	Type of Hedging	Objective
Forward exchange contracts	Cash flow hedge	To hedge sales receipts against cash flow volatility arising from the fluctuation of the A$/US$ exchange rate.
Collar options	Cash flow hedge	To hedge sales receipts against cash flow volatility arising from the fluctuation of the A$/US$ exchange rate by limiting exposure to exchange rates within a certain range of acceptable rates.

33. Financial Instruments (Continued)

[i] Foreign exchange contracts – cash flow hedges

At balance date, the following foreign exchange contracts designed as a hedge of anticipated future receipts that will be denominated in US$ were outstanding:

	2016				2015			
	Average Contract Rate A$/US$	Contract Amount US$ $'000	Contract Amount A$ $'000	Fair Value A$ $'000	Average Contract Rate A$/US$	Contract Amount US$ $'000	Contract Amount A$ $'000	Fair Value A$ $'000
Collar Option Contracts								
- within one year	0.75	15,000	20,000	231	-	-	-	-
call strike price 0.750								
put strike price 0.685								
Total	**0.75**	**15,000**	**20,000**	**231**	**-**	**-**	**-**	**-**

As balance date, the following foreign exchange contracts were recognised on the balance sheet and income statement:

	Notes	2016 $'000	2015 $'000
Current assets	10	231	-
Total collar option contracts		231	-
Movement in forward exchange contract cash flow hedge reserve:			
Opening balance		-	2,395
Change in fair value of cash flow hedges net of tax		(231)	5,334
Transferred from/(to) revenue in Income Statement net of tax			
- Continuing operations		231	(7,778)
- Discontinued operations		-	49
Closing balance		-	-
Cash flow hedge ineffectiveness recognised immediately in profit and loss		231	-

[ii] Foreign currency sensitivity

The following table details the effect on profit and other comprehensive income after tax of a 10% change in the A$ against the US$ from the spot rates at 30 June 2016 and 30 June 2015 due to changes in the fair value of monetary assets and liabilities.

	Net Profit		Other Comprehensive Income	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
10% appreciation in the A$ spot rate with all other variables held constant	(580)	(781)	-	-
10% depreciation in the A$ spot rate with all other variables held constant	710	955	-	-

The sensitivity analysis of the Group's exposure to the foreign currency risk at balance date has been determined based on the change in value due to foreign exchange movement based on exposures at balance sheet date. A positive number indicates an increase in profit and other comprehensive income.

Notes to the Consolidated Financial Report (continued)

33. Financial Instruments (Continued)

At balance date, the Group's exposure to foreign currency risks on financial assets and financial liabilities, excluding derivatives, are as follows:

		2016 $'000	2015 $'000
Financial Assets			
Cash	(included within note 5)	7,164	3,919
Trade receivables	(included within note 8)	2,862	9,193
Financial Liabilities			
Trade payables	(included within note 16)	(901)	(841)
Net exposure		**9,125**	**12,271**

[c] Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's equipment financing obligations, cash and cash equivalents and term deposits.

The Group's policy is to manage its interest costs using a mix of fixed and variable rate debt (as appropriate).

The Group regularly analyses its interest income rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative financing arrangements.

At balance date, the Group's exposure to interest rate risks on financial assets and financial liabilities was as follows:

Notes to the Consolidated Financial Report (continued)

33. Financial Instruments (Continued)

CONSOLIDATED	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Non-interest bearing		Total carrying amount per balance sheet		Weighted Average Interest	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%	%
i) ***Financial assets***												
Cash	43,315	46,001	-	-	-	-	1	2	**43,316**	**46,003**	0.78	2.07
Short-term deposits (< 3 months maturity)	-	-	-	45,000	-	-	-	-	**-**	**45,000**	-	2.59
Term deposits - receivables	-	-	250,000	210,000	-	-	-	-	**250,000**	**210,000**	2.94	3.14
Subordinated notes – available-for-sale	87,000	33,000	-	-	-	-	-	-	**87,000**	**33,000**	3.74	3.83
Financial assets held for trading	-	-	19,771	-	-	-	-	-	**19,771**	**-**	4.78	-
Trade and other receivables	-	-	-	-	-	-	41,546	15,354	**41,546**	**15,354**	-	-
Derivative financial assets	-	-	-	-	-	-	231	-	**231**	**-**	-	-
Total financial assets	**130,315**	**79,001**	**269,771**	**255,000**	**-**	**-**	**41,778**	**15,356**	**441,864**	**349,357**		
ii) ***Financial liabilities***												
Trade and other payables	-	-	-	-	-	-	36,229	49,664	**36,229**	**49,664**	-	-
Hire purchase liabilities	-	-	-	2,044	-	119	-	-	**-**	**2,163**	-	7.66
Insurance premium funding	-	-	421	575	-	-	-		**421**	**575**	1.86	1.69
Total financial liabilities	**-**	**-**	**421**	**2,619**	**-**	**119**	**36,229**	**49,664**	**36,650**	**52,402**		

33. Financial Instruments (Continued)

[i] Interest rate sensitivity

The following table details the effect on profit and other comprehensive income after tax of a 0.25% change in interest rates at 30 June 2016 and 1.0% change in interest rate at 30 June 2015.

	Net Profit		Other Comprehensive Income	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
• 1% increase in interest rate with all other variables held constant	-	2,016	-	-
• 0.25% increase in interest rate with all other variables held constant	624	-	-	-
• 1% decrease in interest rate with all other variables held constant	-	(2,016)	-	-
• 0.25% decrease in interest rate with all other variables held constant	(624)	-	-	-

The sensitivity analysis of the Group's exposure to Australian variable interest rates at balance date has been determined based on exposures at balance sheet date. A positive number indicates an increase in profit and equity.

[d] Credit risk

The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Group's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to the Group.

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of advance payments and letters of credit which effectively protect at least 90% of the estimated receivable amount at the time of sale.

Credit risk from balances with banks and financial institutions is managed in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties with an acceptable Standard & Poors short term credit rating and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is presently considered to exist by virtue of the possible non-performance of the counterparties to financial instruments.

There are no significant concentrations of credit risk within the Group.

[e] Commodity price risk

The Group's operations are exposed to commodity price risk as the Group sells iron ore to its customers. The majority of the Group's sales revenue is derived under long term sales contracts for the life of mine at each of its operations. The pricing mechanism in these contracts reflects a market based clearing index. The pricing mechanism adopts the Platts Iron Ore Index Price ("**Platts Index**") which is published daily for iron ore "fines" with Fe content ranging from 52% to 65% and is quoted on a US$ per dry metric tonne "Cost and Freight" North China basis. The price to be paid by Mount Gibson's customers is based on the applicable Platts Index for the type and quality of ore delivered and reflects the average Platts Index for the preceding or the actual calendar month of the iron ore shipment. The average monthly Platts Index is converted to a "Free On Board" price per dry metric tonne by deducting the calculated shipping freight costs utilising corresponding shipping average monthly indices for Panamax vessels from the ports of Geraldton and Koolan Island to China. "Lump" iron ore receives a premium to the published Platts Index "fines" price and is determined every 1 to 3 months depending on the relevant sales contract.

Revenue on sales is recognised based on provisional priced sales and is subject to final adjustments between 30 to 120 days after shipment and delivery. There are limited available financial instruments available to hedge the iron ore price and the Group has yet to enter into such arrangements.

33. Financial Instruments (Continued)

[f] Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its cash reserves and equipment financing arrangements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Group's capital risk management objectives are to safeguard the business as a going concern, to provide appropriate returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital (being equity and debt).

Mount Gibson does not have a target debt/equity ratio but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

At 30 June 2016, the Group had unutilised performance bonding facilities totalling $29,171,000 (2015: $23,212,000). Refer note 17.

Tabulated below is an analysis of the Group's financial liabilities according to relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the balance sheet.

	30 June 2016					30 June 2015				
	Less than 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	Less than 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial Liabilities										
Trade and other payables	36,229	-	-	-	**36,229**	49,664	-	-	-	**49,664**
Hire purchase liabilities	-	-	-	-	**-**	1,234	895	120	-	**2,249**
Insurance premium funding	423	-	-	-	**423**	577	-	-	-	**577**
Derivatives – inflow	(20,231)	-	-	-	**(20,231)**	-	-	-	-	**-**
Derivatives - outflow	20,000	-	-	-	**20,000**	-	-	-	-	**-**
	36,421	**-**	**-**	**-**	**36,421**	**51,475**	**895**	**120**	**-**	**52,490**

[g] Fair value of financial assets and financial liabilities

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – valuation techniques (for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – valuation techniques (for which the lowest level of input that is significant to the fair value measurement is unobservable)

The fair values of derivative financial instruments are determined using the Level 2 method requiring fair value to be calculated using short and long term observable market inputs. The Group's fair values under the Level 2 method are sourced from an independent valuation by the Group's treasury advisors. The valuation techniques use prevailing market inputs sourced from Reuters/Bloomberg to determine an appropriate mid price valuation.

The fair values of quoted notes and bonds (classified as either financial assets held for trading or available-for-sale) are determined using Level 1 method based on market price quotations at the reporting date.

The fair values of cash, short-term deposits, trade and other receivables, trade and other payables and other interest-bearing borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.

Notes to the Consolidated Financial Report (continued)

33. Financial Instruments (Continued)

The carrying amounts and fair values of the financial assets and financial liabilities for the Group as at 30 June 2016 are shown below.

	2016 Carrying Amount $'000	2016 Fair Value $'000	2015 Carrying Amount $'000	2015 Fair Value $'000
Financial assets - current				
Cash	43,316	43,316	46,003	46,003
Short-term deposits	-	-	45,000	45,000
Term deposits – receivables	250,000	250,000	210,000	210,000
Subordinated notes – available-for-sale	87,000	87,000	33,000	33,000
Financial assets held for trading	19,771	19,771	-	-
Trade debtors	3,162	3,162	10,402	10,402
Other receivables	38,384	38,384	4,952	4,952
Derivatives	231	231	-	-
	441,864	441,864	349,357	349,357
Financial liabilities – current				
Trade and other payables	36,229	36,229	49,664	49,664
Hire purchase liabilities	-	-	2,044	2,044
Insurance premium funding	421	421	575	575
	36,650	36,650	52,283	52,283
Financial liabilities – non current				
Hire purchase liabilities	-	-	119	119
	-	-	119	119
Net financial assets	**405,214**	**405,214**	**296,955**	**296,955**

Recognition and measurement

Derivative financial instruments and hedging

The Group uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction. All hedges are currently classified as cash flow hedges.

In relation to cash flow hedges (forward and collar foreign currency contracts) to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Effectiveness is tested at inception of each hedge and monthly thereafter until the hedge expires. The cumulative dollar offset method is applied in the measurement of effectiveness. The cumulative approach involves comparing the cumulative change (to date from inception of the hedge) in the hedging instrument's fair values to the cumulative change in the hedged item's (or USD cash flow) attributable to the risk being hedged.

Effectiveness of the forward exchange contracts is monitored by comparing the forward net present value of the underlying cash flows to the forward net present value of the fair value associated with the hedging instrument. Prospective and retrospective testing is undertaken by the Group's treasury advisors.

At each balance date, the Group measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over hedged, the ineffective portion is taken immediately to other income or expense in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

34. Parent Entity Information

	2016 $'000	2015 $'000
[a] Information relating to Mount Gibson Iron Limited:		
Current assets	47,701	423
Total assets	759,577	606,434
Current liabilities	464	306
Total liabilities	367,642	300,860
Issued capital	568,328	568,328
Accumulated losses	(590,736)	(282,727)
Dividend distribution reserve	394,306	-
Share based payments reserve	20,037	19,973
Total Shareholder's Equity	391,935	305,574
Net profit/(loss) after tax of the parent entity	86,296	(109,432)
Total comprehensive profit/(loss) of the parent entity	86,296	(109,432)

[b] Details of any guarantees entered into by the parent entity

There are cross guarantees given by Mount Gibson Iron Limited in relation to the debts of its subsidiaries as described in notes 11 and 17.

The parent entity has further provided bank guarantees in respect of obligations to various authorities. Refer to note 17.

[c] Details of any contingent liabilities of the parent entity

The parent entity had contingent liabilities as at reporting date as set out in note 26. For information about guarantees given by the parent entity, refer [b] above.

Mount Gibson Iron Limited guarantees the performance of Mount Gibson Mining Limited's obligations to Aurizon entities under the Transport Agreement made on 26 June 2008 as amended and restated on 30 June 2009. In accordance with this agreement, Mount Gibson Mining Limited agrees to reimburse Aurizon for track access charges properly due and payable to Brookfield, the rail infrastructure owner.

[d] Details of any contractual commitments by the parent entity for the acquisition of property, plant and equipment

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at reporting date.

[e] Tax Consolidation

The Company and its 100% owned entities have formed a tax consolidated group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Directors' Declaration

In accordance with a resolution of the directors of Mount Gibson Iron Limited, I state that:

1. In the opinion of the Directors:

   a. the financial statements, notes and the additional disclosures included in the Directors Report designated as audited of the Group are in accordance with the *Corporations Act 2001*, including:

      i) giving a true and fair view of the financial position of the Group as at 30 June 2016 and of its performance for the year ended on that date; and

      ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and

   b. the financial statements and notes also comply with International Reporting Standards as disclosed in Note 1; and

   c. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2016.

Signed in accordance with a resolution of the directors.

Lee Seng Hui

LEE SENG HUI
Chairman

Sydney, 16 August 2016

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Independent auditor's report to the members of Mount Gibson Iron Limited

Report on the financial report

We have audited the accompanying financial report of Mount Gibson Iron Limited, which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(d), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Mount Gibson Iron Limited is in accordance with the *Corporations Act 2001*, including:

    i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

    ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(d).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Mount Gibson Iron Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
16 August 2016