

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 31 DECEMBER 2017

17 January 2018

Key Points*

- Quarterly sales steady at **0.84 million wet metric tonnes** (Mwmt), for ore sales revenue of **\$48 million** Free on Board (FOB).
- December half ore sales totaled **1.7 Mwmt**, for sales revenue of **\$90 million** FOB.
- Final fully franked dividend of 2.0 cents per share, totalling \$22 million, distributed in October 2017.
- Cash and liquid investments of **\$477 million** at 31 December 2017, compared with \$507 million at the end of the prior quarter, after Koolan Island restart expenditure and dividend distribution.
- High grade Koolan Island restart project progressing toward targeted first ore sales in early 2019.
- All-in group cash costs** of **\$46/wmt FOB**, in line with the prior quarter.
- Full year iron ore sales guidance for FY2018 of **3.5-3.8 Mwmt**, at an average all-in group cash cost** of **\$47-52/wmt**.

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

** All-in group cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure and corporate costs, excluding Koolan Island restart expenditure.

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "Mount Gibson again delivered a solid performance in the December quarter and half year, as Iron Hill ramped up to full capacity, work on the high grade Koolan Island Restart Project progressed, and shareholders received a \$22 million fully franked dividend.

"Positive operational cashflow from our Mid West business enabled us to maintain healthy cash and liquid investment reserves of \$477 million at the end of December, after investing substantial capital in seepage barrier construction at Koolan Island and payment of the dividend.

"Iron Hill continues to be a solid operational performer as it heads towards its scheduled completion later this year. The Koolan Island Restart Project is now in the phase of seepage barrier construction, and the Project currently remains on track to achieve first sales in the first quarter of calendar 2019. As we have stated previously, the high quality of ore from Koolan Island will set us apart in a market that is increasingly geared to premium quality iron ore products.

"These high quality assets, together with our robust balance sheet, continue to provide us with an excellent foundation to build long term value for our shareholders and pursue new resources investment opportunities."

PERFORMANCE AT A GLANCE

	Unit	Dec-2016 Quarter	Mar-2017 Quarter	Jun-2017 Quarter	Sep-2017 Quarter	Dec-2017 Quarter	2017/18 YTD
Standard DSO product sales	kwmt	657	357	300	659	781	<i>1,440</i>
Low Grade material sales [^]	kwmt	239	425	303	181	60	<i>241</i>
Total Ore Sales	kwmt	896	782	603	841	841	<i>1,681</i>
Ave. Platts 62%Fe CFR price	US\$/dmt	71	86	63	71	66	<i>68</i>
MGX FOB Ave. realised fines price [#]	US\$/dmt	49	46	na [*]	34	21	<i>27</i>
<p>Minor discrepancies may occur due to rounding.</p> <p>*No fines material was sold during the June 2017 quarter.</p> <p>[^]Refers to spot sales from crushed low grade material at the Extension Hill mine site and, in previous quarters, at the now-closed Talling Peak mine site.</p> <p>[#]Mount Gibson's realised FOB fines price includes standard DSO fines product from Extension Hill/Iron Hill only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities.</p> <p>kwmt = thousand wet metric tonnes.</p> <p>US\$/dmt = USD per dry metric tonne.</p>							

OPERATIONS

Ore sales totalled 841,000 wmt in the December quarter, all from the Company's Mid West operations. Sales comprised 481,000 wmt of standard DSO (Direct Shipping Ore) lump and 300,000 wmt of standard DSO fines from the Iron Hill mine, and 60,000 wmt of low grade lump material from stockpiles at Extension Hill. Combined ore sales for the December half year totalled 1.68 Mwmt.

Operating statistics are tabulated in Appendix A.

Mid West Operations – Extension Hill/Iron Hill

The primary focus of activity during the quarter remained on ramping up production from Iron Hill, 3km south of the depleted Extension Hill pit. This included the addition of a third daily train service in November.

Sales of DSO lump and fines from Iron Hill remained consistent with the prior quarter, with lump sales accounting for approximately 60% of DSO sales. A shipment of 60,000 wmt of low grade lump material from stockpiles at Extension Hill was completed in November, thereby concluding planned low grade sales. Further low grade sales may be undertaken on an opportunistic basis if and when economic conditions justify.

Site cash costs¹ for Extension Hill/Iron Hill averaged \$43/wmt for the quarter.

At the end of December, approximately 88,000 wmt of crushed high grade product was stockpiled at the mine. Stockpiles of uncrushed high grade Iron Hill material totalled 479,000 wmt and stockpiles of uncrushed lower grade material totalled 2.7 Mwmt grading 50-55% Fe. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 236,000 wmt of high grade ore.

The average grade of Iron Hill high grade lump ore sold during the quarter was 61.5% Fe, and the average grade of the Iron Hill high grade fines ore sold in the period was 59.9% Fe.

Koolan Island

With the commencement of material siteworks for the Koolan Island Restart Project in June, activity increased during the period with the project approximately 28% complete at the end of the quarter (refer Figure 1). Cash expenditure on the Koolan Island restart project totalled approximately \$18 million in the quarter.

After successful completion of the starter embankment in the prior quarter, activity was focused on the initial stage of the seepage barrier construction. During the quarter, the last of the vertical drains were completed along with the installation of monitoring instrumentation.

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



Initial stages of seepage barrier construction typically require extensive on-site trialling and optimisation to adapt to actual ground conditions. Panel dig rates, while slow initially, have been increasing satisfactorily as the construction approach has been adapted, and work on the seepage barrier is now advancing.

The Project presently remains on track to achieve targeted first ore sales in the first quarter of calendar 2019. Contingency provisions in the Project budget are currently considered to be sufficient to meet the bulk of expected additional costs. However, with the wet season now underway, the Company continues to monitor both schedule and budget closely.

For full details of the Project fundamentals, refer to the Company's announcement on 27 April 2017.

Figure 1 – Koolan Island Restart Project Schedule and Progress

Task Name	2017			2018				2019
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Rock Fill Embankment construction	completed							
Seepage Barrier Construction				in progress				
Dewatering & Footwall Rehabilitation								
Mining								
First Sales Commencement								♦

Progress achieved	
31-Dec-17	

CORPORATE²

Realised Pricing and Revenue

The December quarter average Platts CFR price (which includes the cost of shipping paid for by the iron ore supplier) for 62% Fe fines delivered to northern China was US\$66 per dry metric tonne (dmt) compared with the US\$71/dmt average of the preceding quarter. Continued widening of the lower grade price differential between the Platts 58% Fe and Platts 62% Fe price indices remained a significant impact on revenue during the period, in particular for fines ore products.

As previously foreshadowed, the ratio of lump to fines sold from Iron Hill increased during the quarter, with high grade lump accounting for approximately 60% of DSO products sold. Iron Hill lump sales achieved an average realised price of US\$63/dmt after grade and provisional pricing adjustments and penalties for impurities, consistent with the prior quarter. However, the average realised price achieved for Iron Hill fines sold during the quarter was US\$21/dmt FOB (US\$24/dmt before provisional pricing adjustments from the prior quarter), reflecting the significant impact of discounts on material grading below 62% Fe and higher shipping freight rates in the quarter. As noted previously, standard Iron Hill fines material presently grades circa 59-60% Fe while lump material is expected to average more than 60% Fe over the production life.

FOB ore sales revenue for all products totalled \$48 million in the December quarter, taking sales revenue in the December half year to \$90 million.

Cash Position

The Company's cash and liquid investments totalled \$477 million at 31 December 2017, compared with \$507 million at 30 September 2017.

The change reflected distribution in October of the \$22 million fully franked 2.0 cents per share final dividend declared for the 2016/17 financial year, Koolan Island cash expenditure of \$18 million, and positive operating cashflows from the Mid-West business (after interest revenue and corporate office costs) of \$10 million.

² Sales, cost and cash movement figures are unaudited.

Cost Performance and Group Sales Guidance

All-in group cash costs³ averaged \$46/wmt FOB in the December quarter, in line with the September 2017 quarter.

As previously reported, the Company has provided group sales guidance for the 2017/18 financial year of 3.5-3.8 Mwmt of ore at an average all-in group cash cost of \$47-52/wmt FOB.

Iron Hill Offtake Agreement

On 21 December 2017, the Company announced it had entered a second offtake agreement with SCIT Trading Limited ("SCIT"), a wholly-owned subsidiary of China's Shougang Concord International Enterprises Company Limited ("Shougang Concord"), for the sale of iron ore from Iron Hill.

The new offtake agreement, which is in addition to SCIT's existing offtake agreement to purchase approximately one quarter of the annual Iron Hill production, will increase the total production committed to SCIT under both contracts to approximately 82% of available lump and 83% of fines ore up until 8 July 2018 when the existing offtake is expected to end. Assuming SCIT does not exercise its right to extend the existing offtake agreement, then the rate of supply under the second offtake will immediately adjust to 75% of available lump and fines ore.

Terms of the new offtake agreement include market reflective pricing referenced to relevant S&P Global Platts pricing indices, and market-typical lump premium and impurity penalties, on a Cost and Freight (CFR) basis for delivery in China. The new SCIT agreement remains conditional upon approval by Mount Gibson's shareholders unrelated to SCIT and Shougang Concord, for which a shareholder meeting is expected to be held in the March 2018 quarter. Further information will be provided in the Notice of Meeting in due course.

Other

Mount Gibson held its Annual General Meeting on 8 November 2017. All resolutions were passed on a show of hands.

Subsequent to the end of the December quarter, on 8 January 2018, the Company announced Mr Kin Chan had resigned as a Non-Executive Director due to his increased business commitments.

The Company will release its financial results for the December half-year on 13 February 2018.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **1.00pm AEDT (10.00am WST)** on **17 January 2018**. Investors will be able to listen in to the teleconference by dialling **1800 857 029** immediately prior to the scheduled start time and entering the access code **18314558#** at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1800 857 079 (Australian callers) or +613 8788 6028 (overseas callers).

³ All-in group cash costs are reported FOB and include cash operating costs, royalties, sustaining capital expenditure and corporate costs, excluding Koolan Island restart expenditure.

Koolan Island Restart Project Pictorial Update



Figure 2: Seawall – January 2018

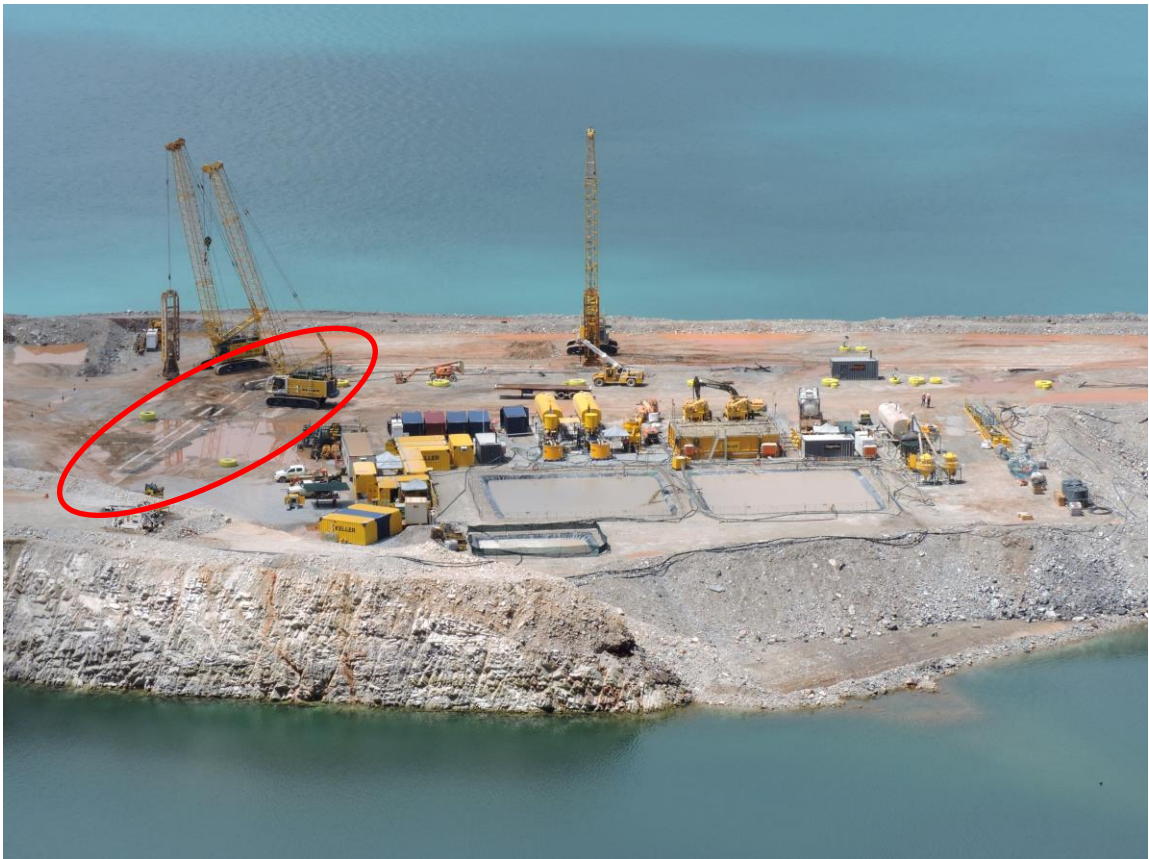


Figure 3: Eastern seawall seepage barrier construction (several completed panels circled)
- January 2018



Figure 4: Excavation of Panel 016 - December 2017



Figure 5: Excavation of Panel 050 - December 2017



Figure 6: Pumping slurry into excavated Panel 011 December 2017



Figure 7: Completed Panel 030– December 2017

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics by Site

	Dec-2016 Quarter	Mar-2017 Quarter	Jun-2017 Quarter	Sep-2017 Quarter	Dec-2017 Quarter	2017-18 YTD
EXTENSION/IRON HILL	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	28	6	295	420	514	934
Standard ore mined	171	28	640	879	961	1,840
Low-grade ore mined [#]	36	21	142	225	151	375
Total ore mined	207	49	782	1,104	1,112	2,216
Ore crushed	728	915	876	821	742	1,562
Shipping/Sales						
Standard DSO Lump	362	180	300	294	481	775
Standard DSO Fines	295	176	-	366	300	665
Low Grade Lump	118	305	303	181	60	241
Low Grade Fines	-	-	-	-	-	-
Total	775	662	603	841	841	1,681
TALLERING PEAK	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Shipping/Sales						
Low Grade Lump	-	-	-	-	-	-
Low Grade Fines	122	120	-	-	-	-
Total	122	120	-	-	-	-
CONSOLIDATED	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Total waste mined	28	6	295	420	514	934
Total ore mined	207	49	782	1,104	1,112	2,216
Total ore crushed	728	915	876	821	742	1,562
Shipping/Sales						
Standard DSO Lump	362	180	300	294	481	775
Standard DSO Fines	295	176	-	366	300	665
Low Grade	239	425	303	181	60	241
Total	896	782	603	841	841	1,681

kwmt = thousand wet metric tonnes.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be saleable. This material has been stockpiled for future sale and is treated as mineralised waste for accounting purposes.

Minor discrepancies may appear due to rounding.