

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2012

18 October 2012

HIGHLIGHTS

OPERATIONS – Stronger Sales Performance

- September quarter shipments increased 52% to 1.76 million tonnes, compared to 1.16 million tonnes in the preceding period
- Koolan Island shipments increased by 53% to 786,000 tonnes
- Mid West shipments increased 51% to 976,000 tonnes
- Commissioning of upgraded Geraldton port and rail facilities completed
- Major works for regional rail upgrade complete
- Phase 1 drilling campaign completed at Talling Peak T1 prospect
- Business response to volatile price outlook:
 - Operational restructure to maximise cash generation in volatile price environment
 - Accelerated drawdown of ore stocks built up primarily due to Mid West infrastructure constraints and stronger Koolan Island production in the June 2012 quarter
 - Mining/stripping schedules realigned with stocks drawdown to attain FY2013 sales target
 - Approximately \$120 - \$150 million in capital and operating expenditure eliminated or deferred from original internal budget estimates for FY2013
 - Workforce reduction of approximately 270 positions including 140 contractors
 - Sales target of 8 million to 8.5 million tonnes for FY2013, including sales from stocks

CORPORATE

- Net profit of \$172.5 million reported for the year to 30 June 2012
- Renewal of executive management team complete following commencement of permanent CFO and COO

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OPERATIONS

Mount Gibson shipped a total of 1.76 million wet metric tonnes in the September quarter, a 52% increase on shipments in the June quarter reflecting a catch-up of shipments from Koolan Island and the successful commissioning of the Company's upgraded export facilities at Geraldton Port.

Ore tonnes mined were lower at 1.64 million tonnes, as were total ore tonnes crushed at 1.93 million tonnes, compared to 2.2 million tonnes and 2.08 million tonnes respectively in the preceding quarter.

This largely reflected reduced mining rates at Extension Hill due to the build-up of stockpiles caused by Mid West port and rail constraints in the June half of 2012, tighter working areas in the final stages of the pit at Talling Peak and higher waste stripping at Koolan Island.

The weighted average realised fines price achieved by Mount Gibson during the September quarter was US\$110 per dry metric tonne Free on Board (FOB). The September quarter average Platts CFR price (where the iron ore supplier pays freight costs) for 62% Fe fines delivered to China was US\$113/dmt. Comparative CFR and realised FOB prices for calendar 2012 are indicated in the following table:

		Mar-12 Quarter	Jun-12 Quarter	Sep-12 Quarter
Platts 62% Fe Fines CFR average price	US\$/dmt	143	141	113
MGX FOB average realised Fines price*	US\$/dmt	114	117	110

*The MGX realised FOB price reflects adjustments for freight, grade and penalties. Most contracts are based on lagging monthly average prices.

Koolan Island

Ore shipments from Koolan Island during the September Quarter were 53% above the previous quarter, reflecting some catch up on the lower shipping levels of the previous quarter.

Ore production was 42% lower and crushing was 30% lower than the previous quarter, reflecting decisions to increase waste stripping due to a build-up of post-crusher stockpiles of standard product in the previous quarter due to stronger ore production in the period.

At the end of September, these post-crusher stockpiles totalled approximately 670,000 tonnes of standard product. A further 160,000 tonnes of direct shipping ore was stockpiled ready for crushing. In addition, a parcel of mineralised waste was crushed in the quarter, and the first shipment was despatched in mid October.

Mining of ore from Mullet Pit advanced satisfactorily as did mining of waste in Main Pit. Installation of the high capacity pontoon pumps in the Main Pit in preparation for the wet season has commenced. The final clay topping for the seawall was installed, and pouring of the concrete slab for the new workshop commenced.

Comparative Koolan Island production for the September Quarter 2012 and prior financial year is detailed in the following table:

Koolan Island			Sept-11	Dec-11	Mar-12	Jun-12	Sept-12	Total
			Qtr	Qtr	Qtr	Qtr	Qtr	2012-13
			000's	000's	000's	000's	000's	000's
Mining	Waste Mined	bcm	2,205	2,350	1,689	2,160	2,189	2,189
	Ore Mined	wmt	685	726	583	965	555	555
Shipping	Lump	wmt	365	285	219	143	151	151
	Fines	wmt	508	442	511	370	635	635
	Total	wmt	873	727	730	513	786	786

Mid West Operations

The September quarter was one of consolidation for Mount Gibson's operations in the Mid West.

Commissioning of the Company's upgraded port and rail facilities at Geraldton Port was completed during the quarter, with the new rail unloader formally handed to the Geraldton Port Authority on achieving practical completion on 10 September.

The upgraded port facilities effectively double Mount Gibson's nominal export capacity from Geraldton to approximately 6 million tonnes per annum.

The upgrade integrates a new dual-wagon common user rail unloader with Mount Gibson's new Berth 5 Storage Facility, which has an ore storage capacity of 240,000 tonnes, and with the Company's existing 120,000 tonne Berth 4 Storage Facility.

Rail availability also improved substantially as the third party upgrade of regional rail infrastructure for other mining projects moved closer to completion.

Tonnes railed from the Company's Mid West mines to Geraldton port totalled 940,000 tonnes, a 33% increase on the preceding quarter. Total tonnes shipped from Geraldton during the quarter increased by 51% to 976,000 tonnes.

All major works for the regional upgrade are now complete, and the rail provider has indicated Mount Gibson will be able to fully utilise its contracted capacity by the end of October.

Extension Hill Hematite Mine

Ore mining for the September quarter totalled 530,307 tonnes, 26% lower than in the June quarter. This reflected the planned reduction in mining and crushing rates from July due to full utilisation of stockpiling areas at both the Extension Hill mine site and at the Perenjori rail siding. As indicated previously, this build-up of stocks was the result of port and rail constraints in the calendar year to date.

At the end of September, over 500,000 tonnes of standard product was stockpiled at the mine, either crushed or ready for crushing, and over 600,000 tonnes of crushed standard product was in stockpiles at the Perenjori rail siding.

Rail availability improved significantly during the quarter as the third party rail upgrade for other mining projects moved closer to completion. Tonnes railed to Geraldton port increased by 72% to 527,659 tonnes. A total of 469,493 tonnes of lump and 116,440 tonnes of fines were exported in the quarter.

Comparative Extension Hill production for the September quarter 2012 and prior financial year is detailed in the following table:

Extension Hill			Sept-11	Dec-11	Mar-12	Jun-12	Sept-12	Total
			Qtr	Qtr	Qtr	Qtr	Qtr	2012-13
			000's	000's	000's	000's	000's	000's
Mining	Waste Mined	bcm	226	265	363	509	368	368
	Ore Mined	wmt	444	459	748	717	530	530
Shipping	Lump	wmt	0	121	184	234	469	469
	Fines	wmt	0	0	122	114	116	116
	Total	wmt	0	121	306	348	585	585

Tallering Peak

Total material movement for the quarter was 15% below the previous quarter due to a reduction in production as the pit became smaller and clean-up work was undertaken around the slip area.

Ore mined was 5% higher than the previous quarter and in line with expectations as ore was exposed following the development of the southern cutback.

Radar monitoring of the southern pit wall continued during the quarter and no significant movement was reported. Further ground supports and geotechnical measures have been taken to stabilise the southern pit wall as mining progresses.

Rail haulage was slightly above the previous quarter as stocks were drawn down from railhead stockpiles. Stockpiles of crushed standard product at the Mullewa rail siding totalled 290,000 tonnes at the end of September, with a further 178,000 tonnes at Geraldton port.

Shipping improved during the quarter and included two shipments of low grade lump material.

Exploration continued at the T1 prospect throughout the quarter. More detail on exploration progress at T1 is contained Exploration section of this report.

Comparative Tallering Peak production for the September 2012 quarter and the prior financial year is detailed in the following table:

Tallering Peak			Sept-11	Dec-11	Mar-12	Jun-12	Sept-12	Total
			Qtr	Qtr	Qtr	Qtr	Qtr	2012-13
			000's	000's	000's	000's	000's	000's
Mining	Waste Mined	bcm	1,658	1,341	1,543	1,231	1,025	1,025
	Ore Mined	wmt	694	546	177	532	558	558
Shipping	Lump	wmt	351	240	121	119	275	275
	Fines	wmt	409	117	59	178	113	113
	Total	wmt	760	357	180	297	388	388

BUSINESS RESPONSE TO VOLATILE PRICE OUTLOOK

As stated in its financial results announcement on 23 August 2012, Mount Gibson has been reviewing opportunities to reduce total expenditure and maximise cash flow in response to recent volatility in iron ore prices which is expected to continue for some time.

This review has resulted in a number of initiatives that will be implemented progressively over the next month.

These initiatives include substantial changes to Mount Gibson's operational profile that will significantly reduce or defer cash expenditure in the current financial year and maximise cash generation in the current environment of volatile iron ore prices.

These initiatives are expected to eliminate or defer approximately \$120 million to \$150 million in capital and operating expenditure compared with Mount Gibson's original internal budget estimates for FY2013. Approximately one third of this amount is anticipated to be sustainable cost reduction.

The Company continues to target sales of between 8 million and 8.5 million tonnes for the financial year.

The main thrust of these initiatives is to maximise sales from the substantial ore stockpiles which have been built up to date, which total just under 2 million tonnes of standard product, as indicated earlier in this report.

Exploiting these existing stockpiles will enable a significant slowdown in mining and waste stripping expenditure in the current financial year and will have a substantial benefit in terms of cash generation in FY2013. The slowdown will involve mining on a single shift basis at all mines.

The most significant change will be at Koolan Island, where waste stripping needed to ramp up production beyond the current 3 million tonnes per annum production rate will be slowed down. These actions will substantially reduce capital and operating expenditure previously budgeted to occur in FY2013, during which time work to determine the optimum production and waste mining profile for the remainder of the mine life will be completed. Deferred waste stripping will be undertaken in subsequent years according to the outcome of this work.

Mining activity at Extension Hill, which was reduced from July due to full utilisation of space for stockpiles, will continue at the currently reduced rate while sales are maximised from the substantial stockpiles built up in the calendar year to date.

At Talling Peak, the Company has revised the mining schedule to achieve a smoother run-down profile which is expected to deliver operational expenditure savings without any reduction in expected ore sales in FY2013. Mining remains scheduled for completion in mid 2013.

These changes will result in the Company's total current workforce being reduced by approximately 270 positions, including 140 contractors. Almost all of these reductions will occur at Koolan Island. In addition, some of the already planned redundancies at Talling Peak associated with mine closure will be brought forward. The Company will provide outplacement assistance to employees affected by these initiatives.

A number of other cost reduction initiatives have also been implemented to reduce all non-essential or discretionary spending. These include suspension of all discretionary capital expenditure, and non-safety-related training and a reduction in the ongoing use of external consultants.

To further support these cost reduction initiatives, the Board and senior executive management of Mount Gibson have agreed to a 10% reduction in the total Board and executive remuneration package for the financial year.

EXPLORATION

Talling Peak

Exploration activity during the September quarter was focused on the T1 prospect, which is located approximately 1 km north-east of the Main Range pit. Based on historical exploration activity undertaken by Western Mining Corporation in the 1960s, the prospect is considered to have potential for limited volumes of hematite mineralisation.

During the quarter, 38 RC holes were drilled to complete the phase one drilling campaign. Including the four holes completed in the previous quarter, 42 drillholes have been completed for 5169 metres over the program to date.

Assays have been returned for all holes drilled, with significant intercepts in 21 of the 38 holes drilled during the period.

Results to date support the geology model that the T1 prospect has mineralised hematite capping from the surface to the transitional zone grading into magnetite at depth. Iron rich material at T1 exists in two subparallel BIF (Banded Iron Formation) units, the Upper and Lower BIF. There is some canga development at surface, and detritals on the hill slope.

The data is currently being assessed and a geological model constructed. A further 12 holes are proposed to test the viability of T1. Drilling has been put on hold while clearing of drill pads is conducted, and the current data is assessed.

Significant intercepts greater than 50% Fe are outlined in the table over the page.

Other Activity

No significant exploration activity was undertaken at Koolan Island or Extension Hill during the quarter.

As part of Mount Gibson's longer term growth strategy, the Company continues to evaluate opportunities to complement its existing businesses. The near term focus of this evaluation process is on identifying suitable opportunities in the Mid West region.

The Company continues to assess potential entry-level opportunities to expand its exploration footprint in the region via possible farm-in and joint ventures.

Mount Gibson will provide further updates as appropriate.

T1 Prospect Talling Peak Significant Intercepts Fe>50%										
Hole ID	Depth From	Depth To	Width	Fe	SiO ₂	Al ₂ O ₃	P	S	LOI	EOH
	(m)	(m)	(m)	%	%	%	%	%	%	(m)
TTRC001#	2	19	17	58.1	10.78	1.59	0.01	0.01	3.18	188
TTRC001#	27	63	36	64.2	6.13	0.58	0.03	0.03	1.18	188
TTRC002#	29	37	8	59.9	10.54	0.54	0.01	0.01	1.60	170
TTRC002#	79	113	34	60.78	12.31	0.50	0.08	0.02	-0.16	170
<i>Including</i>	<i>88</i>	<i>99</i>	<i>11</i>	<i>65.8</i>	<i>5.26</i>	<i>0.23</i>	<i>0.11</i>	<i>0.01</i>	<i>0.02</i>	<i>170</i>
TTRC003#	57	79	22	50.2	25.48	1.10	0.06	0.01	0.82	174
TTRC003#	91	101	16	64.8	6.19	0.45	0.11	0.14	-0.23	174
TTRC004	77	92	15	57.0	14.56	1.66	0.088	0.17	0.69	114
TTRC005A	105	126	21	60.5	14.57	0.29	0.092	0.27	-2.31	126
TTRC007	8	28	19	52.9	16.9	0.41	0.013	0.005	2.47	108
TTRC008	6	16	10	54.3	13.88	0.92	0.016	0.014	4.42	90
TTRC008	55	62	7	57.8	12.11	0.44	0.012	0.003	1.44	90
TTRC009	6	26	20	53.5	16.35	0.96	0.011	0.013	4.667	102
TTRC011	13	52	41	56.3	14.96	0.54	0.051	0.006	2.18	130
<i>Including</i>	<i>13</i>	<i>27</i>	<i>15</i>	<i>60.8</i>	<i>8.458</i>	<i>0.99</i>	<i>0.054</i>	<i>0.013</i>	<i>4.23</i>	<i>130</i>
<i>Including</i>	<i>32</i>	<i>44</i>	<i>12</i>	<i>57.4</i>	<i>14.689</i>	<i>0.33</i>	<i>0.056</i>	<i>0.003</i>	<i>1.58</i>	<i>130</i>
TTRC016	3	12	9	58.2	9.43	3.52	0.021	0.02	3.17	150
TTRC016	87	97	10	57.1	14.16	0.15	0.022	0.007	1.04	150
TTRC024*	7	47	40	63.9	5.92	1.16	0.022	0.015	1.39	47
TTRC025*	6	87	81	63.2	7.86	0.43	0.038	0.012	0.89	174
TTRC026*	12	39	27	61.9	8.85	0.93	0.011	0.013	1.59	84
TTRC026*	45	65	20	62.3	8.39	0.88	0.016	0.006	1.17	84
TTRC027	19	30	11	55.5	18.32	1.09	0.015	0.007	1.06	78
TTRC028*	34	91	57	63.5	9.31	0.65	0.041	0.016	0.70	180
TTRC029	125	138	13	60.7	11.46	0.34	0.13	0.35	0.67	156
TTRC032	3	9	6	56.5	12.98	3.36	0.02	0.02	2.23	174
TTRC032	23	33	10	54.5	14.63	3.06	0.01	0.01	3.93	174
TTRC033	103	116	13	64.1	8.71	0.39	0.01	0.01	0.02	150
TTRC035	5	11	6	58.5	13	0.29	0.06	0.02	2.85	90
TTRC036	42	48	6	60.38	11.61	0.268	0.02	0.01	1.73	73
TTRC037*	131	136	5	56.07	11.88	2.833	0.09	1.81	0.51	141
TTRC038*	112	192	80	65.79	5.57	0.846	0.10	0.23	-1.80	204
TTRC039*	117	173	56	66.10	5.32	0.929	0.08	0.10	-2.07	186
TTRC040*	89	98	9	57.92	11.96	2.444	0.01	0.10	2.00	180
TTRC040*	105	113	8	60.79	11.83	0.391	0.04	0.09	0.27	180
TTRC040*	116	122	6	65.94	3.59	1.480	0.07	0.07	-1.33	180
TTRC040*	126	164	38	60.29	9.37	2.326	0.05	0.07	-0.44	180
TTRC041*	53	86	33	64.50	5.27	0.673	0.05	0.01	1.73	96

denotes drillhole and results reported in June quarterly
* denotes drillhole drilled oblique to mineralised bedding, true width is estimated between 12 and 20 metres

CORPORATE

On 23 August 2012, the Company reported a net profit after tax of \$172.5 million for the year ended 30 June 2012. A final fully franked dividend of 2 cents per share was declared, maintaining the full year distribution at 4 cents per share, consistent with the previous financial year. The dividend will be paid on 22 October 2012.

The process to renew and strengthen Mount Gibson's executive team was also completed during the quarter, with the commencement of Peter Kerr as Chief Financial Officer and Andrew Thomson as Chief Operating Officer in mid September 2012.

The Company continued to broaden its current customer base, notably with respect to Extension Hill. Discussions are underway with several parties regarding currently uncommitted volumes from the project. As previously indicated, approximately 18% of Extension Hill production remains available to prospective offtake customers or for future spot sales.

Comment

Mount Gibson Chief Executive Officer Jim Beyer said Mount Gibson's improved operating performance in the September quarter was encouraging. However, decisive business optimisation measures were also necessary in light of the currently volatile market conditions.

"It is encouraging that iron ore prices have firmed in the past week or two, and we remain confident in the long term outlook for iron supply to Asia.

"However, the immediate market outlook remains uncertain. In these circumstances, the only prudent course of action is to implement comprehensive measures that control costs and enable our operations to remain cash positive across the price cycle, including the low points. The initiatives we have announced today will maximise our cash flow and preserve our financial capacity in volatile and challenging conditions.

"Nonetheless, it is always a difficult decision to reduce your workforce, and we will be providing as much assistance as we can to those people affected by the changes we have announced today."

Mount Gibson has the benefit of a strong balance sheet, proven DSO operations with established export infrastructure and minimal capital expenditure requirements, and long term offtake contracts with supportive customers.

JIM BEYER

Chief Executive Officer

18 October 2012

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Attribution

The information in this report that relates to Exploration Results is based on information compiled by Gregory Hudson, who is a member of the Australian Institute of Geoscientists. Gregory Hudson is an employee of Mount Gibson Mining Limited, and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity he is undertaking, to qualify as a Competent Person as defined in the December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Gregory Hudson has consented to the inclusion of the matters in this report based on his information in the form and context in which it appears.

The information in this report relating to Mineral Resources is based on information compiled by Rolf Forster, who is a member of the Australasian Institute of Mining and Metallurgy. Rolf Forster is a consultant to Mount Gibson Mining Limited, and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity he is undertaking, to qualify as a Competent Person as defined in the December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Rolf Forster has consented to the inclusion of the matters in this report based on his information in the form and context in which it appears.

The information in this report relating to Mining Reserves is based on information compiled by Rolf Forster and Weifeng Li, who are both members of the Australasian Institute of Mining and Metallurgy. Rolf Forster and Weifeng Li are consultants to Mount Gibson Mining Limited, and have sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity which they are undertaking, to each qualify as a Competent Person as defined in the December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Rolf Forster and Weifeng Li have consented to the inclusion of the matters in this report based on their information in the form and context in which it appears.