Mount Gibson Iron

Mount Gibson Iron Limited
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13 August 2009

Pages = 86

The Manager
Company Announcements
ASX Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

30 JUNE 2009 APPENDIX 4E
RESULTS FOR ANNOUNCEMENT TO THE MARKET

This Preliminary Final Report for Mount Gibson Iron Limited and its subsidiaries ("**Mount Gibson**") (ASX Code: MGX) is provided to ASX ("**ASX**") under ASX Listing Rule 4.3A.

Financial Highlights

• Sales revenue of $425.4 million	down 2% on the previous year
• Operating profit before tax $61.7 million	down 62 % on the previous year
• Net profit after tax of $42.6 million	down 62% on the previous year
• Total assets total $1,112.9 million	up 24% on the previous year
• Net assets total $780.4 million	up 31% on the previous year
• Cash on hand at 30 June 2009 - $222.2 million	
• Debt drawn at 30 June 2009 - $105.0 million	

The Preliminary Final Report (Appendix 4E) and audited Financial Statements for the year ended 30 June 2009 are attached.

The Annual General Meeting will be held on 18 November 2009 and the Annual Report will be sent to shareholders on or before 18 October 2009.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

David Berg
Company Secretary

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- Current Reporting Period: 12 months ended 30 June 2009
- Previous Corresponding Period: 12 months ended 30 June 2008

		A$'000's
Revenue from ordinary activities	down 2% to	425,443
Net profit after tax from ordinary activities	down 62% to	42,618
Net profit after tax attributable to members	down 62% to	42,618

DIVIDENDS

No dividends have been paid or declared during the year

RATIO'S

- Net tangible asset backing per share is $0.726 (2008: $0.74)

  Net tangible asset backing per share has been calculated by dividing the net tangible assets excluding minority interest share by the closing number of ordinary shares on issue.

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

Not applicable.

STATUS OF AUDIT

This Preliminary Final Report is based on accounts that have been audited.

This Preliminary Final Report is to be read in conjunction with the attached Financial Statements for the year ended 30 June 2009 together with any public announcements made by Mount Gibson during the year ended 30 June 2009 in accordance with the continuous disclosure obligations under the Corporations Act 2001.

Mount Gibson Iron

MOUNT GIBSON IRON LIMITED AND CONTROLLED ENTITIES

ABN 87 008 670 817

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2009

Financial Report

For the year ended 30 June 2009

Directors' Report

Your Directors submit their report for the year ended 30 June 2009 for Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the consolidated entity incorporating the entities that it controlled during the financial year ("**Consolidated Entity**").

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

Neil Hamilton
LLB, AICD
Chairman, Independent Non-Executive Director

Mr Hamilton was appointed as the Non-Executive Chairman on 24 April 2007. Mr Hamilton is a lawyer with more than 23 years experience as a director of public companies. Mr Hamilton is the Chairman of the Nomination, Remuneration and Governance Committee of the Company and has overall responsibility for Corporate Governance. Mr Hamilton is the Chairman of IRESS Market Technology Limited and Northern Iron Limited and Non-Executive Director of Metcash Limited. During the past three years Mr Hamilton served as a director of Integrated Group Limited, Programmed Maintenance Services Limited and Insurance Australia Limited.

Luke Tonkin
B.E., MAusIMM, AICD
Managing Director

Mr Tonkin was appointed as the Managing Director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin & lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia, the world's largest Tantalum producer and third largest Australian listed gold producer, assisting administrators restructure the Company. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans. During the past three years Mr Tonkin has not served as a director of any other listed companies.

Craig Readhead
B. Juris, LL.B, AICD
Independent Non-Executive Director

Mr Readhead was appointed as a Non-Executive Director on 21 December 2001. Mr Readhead has spent the last 30 years practising in the resources law area and is a partner of law firm Allion Legal (formerly called Pullinger Readhead). Mr Readhead is a member of the Nomination, Remuneration and Governance Committee and the Audit and Risk Management Committee. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is Chairman of Heron Resources Ltd and Galaxy Resources Ltd and is a Non-Executive Director of Frankland River Olive Company Limited and India Resources Ltd, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. During the past three years Mr Readhead has also served as Chairman of Nickelore Limited and Agincourt Resources Ltd.

Ian Macliver
B.Comm, CA, F Fin, AICD
Independent Non-Executive Director

Mr Macliver was appointed as a Non-Executive Director on 21 December 2001. Mr Macliver is Managing Director of Grange Consulting Group Pty Ltd, which provide specialist corporate advisory services to both listed and unlisted companies. Mr Macliver is Chairman of the Audit and Risk Management Committee and a member of the Nomination, Remuneration and Governance Committee. He has many years experience as a senior executive and director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is Chairman of Stratatel Ltd and is a Non-Executive Director of Port Bouvard Ltd, Empire Beer Group Ltd and Otto Energy Ltd. During the past three years Mr Macliver has also served as a director of BioProspect Ltd.

Directors' Report (continued)

Alan Jones
CA
Non-Executive Director

Mr Jones was appointed as a Non-Executive Director on 28 July 2006. 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 Ltd (Hong Kong), APAC Resources Limited and IFC Capital Limited. During the past 3 years Mr Jones has not served as a director of any other listed companies.

Cao Zhong
M.Eng; M.Econ
Non-Executive Director

Mr Cao was appointed as a Non-Executive Director on 1 December 2008. Mr Cao is Chairman and Executive Director of APAC. He graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences, with a Master Degree in Engineering and a Master Degree in Economics. Mr Cao has extensive experience in corporate management and operations. Mr Cao is assistant general manager of Shougang Corporation and the Managing Director of Shougang Concord International Enterprises Company Limited. He also holds a number of other roles in the Shougang Corporation group including chairman of China Shougang International Trade and Engineering Corporation and deputy chairman and general manager of Shougang Holding (Hong Kong) Limited, the controlling shareholder of Shougang Concord. He is also the chairman of each of Shougang Concord Technology Holdings Limited, Shougang Concord Century Holdings Limited and Fushan International Energy Group Limited and the vice chairman and managing director of Shougang Concord Grand (Group) Limited. During the past three years, Mr Cao has also served as the chairman of Global Digital Creations Holdings Limited.

Chen Zhouping
CPA
Non-Executive Director

Mr Chen was appointed as a Non-Executive Director on 19 January 2009. Mr Chen is a graduate from the School of Economics and Management, Beijing Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. He has extensive experience in the steel industry, engineering design, human resources and management. Mr Chen was appointed as Deputy Managing Director of Shougang Concord International Enterprises Company Limited in November 2002. He is also the Deputy Managing Director of Shougang Holding (Hong Kong) Limited and a non-executive director of Fushan International Energy Group Limited (a Hong Kong listed company). He is a director of a number of other companies of which Shougang Holding or Shougang Concord is the holding company. During the past 3 years Mr Chen has not served as a director of any other listed companies.

Alan Rule
B.Comm, B.Acc, CA, MAICD
Alternate Director to Luke Tonkin
Chief Financial Officer

Mr Rule was appointed Finance Director of the Company on 1 July 2005 and resigned as Finance Director on 30 June 2007 to become Chief Financial Officer of the Company. Mr Rule is the alternate director to Mr Tonkin. He is a chartered accountant with extensive experience in the mining industry in Australia. He held the position of Chief Financial Officer of Western Metals Limited and more recently St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems. Mr Rule was previously Finance Director of Asia Iron Holdings Limited. During the past three years, Mr Rule has also served as a Non-Executive Director of Resource Mining Corporation Limited.

Robert Willcocks
B.Arts, B.Law, M.Law
Alternate Director to Cao Zhong

Mr Willcocks was appointed Alternate Director on 22 December 2008. From 1980 to 1994, Mr. Willcocks was a partner of the Australian law firm Mallesons Stephen Jaques. From 1993 to 1996, Mr. Willcocks was appointed by the Australian Government to the Australian International Legal Co-operation Committee. Since 1994, he has been a corporate advisor. He has been an advisor to companies in the resources industry for almost 30 years and is a representative of a leading global private equity firm. Mr Willcocks is a Non-Executive Director of CBH Resources Limited, Arc Exploration Limited, Ban-Pu Australia Pty Ltd, Oakbridge Pty Ltd, Emperor Mines Limited, Energy World Corporation Limited and eStar Online Trading Limited. During the past three years, Mr Willcocks has also served as a Non-Executive Director of Emperor Mines Limited and RIM Capital Limited.

Directors' Report (continued)

COMPANY SECRETARY

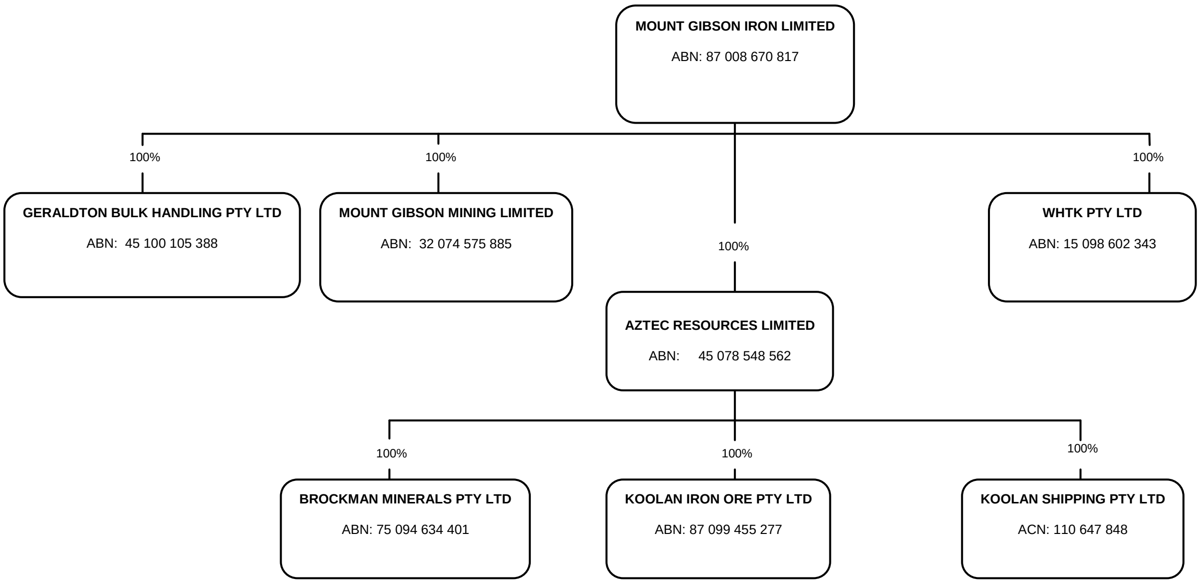
David Berg
B.Com, LLB

Mr Berg was appointed Company Secretary & General Counsel on 21 August 2008 replacing Angela Dent. He is a commercial lawyer with over 9 years experience, with the majority of this time having been spent working in the Perth offices of two national law firms. Immediately prior to joining MGI, Mr Berg was Legal Counsel at a significant private group of companies where he provided in house legal advice on a diverse range of issues.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited 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 Consolidated Entity as at 30 June 2009 was as follows:



Nature of Operations and Principal Activities

The principal activities of the entities within the Consolidated Entity are:

- mining of hematite deposits at Tallering Peak;
- mining of hematite deposits at Koolan Island;
- construction and development of hematite mining operations at Extension Hill; and
- exploration and development of hematite deposits at Koolan Island and in the Mid-West region of Western Australia.

Employees

The Consolidated Entity employed 275 employees (excluding contractors) as at 30 June 2009 (2008: 222 employees).

Future Funding

As at the date of this report the Consolidated Entity has sufficient funds or access to debt funding to develop and mine the Tallering Peak, Koolan Island and Extension Hill iron deposits.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 9 October 2008 the Company advised ASX that it was in discussions with a number of its customers in relation to requested delays to iron ore shipments scheduled for the quarter commencing October 2008. By the end of November 2008, three of those customers had defaulted on their binding offtake agreements. In response to those events, the Consolidated Entity carefully reviewed all of its available options and took steps to mitigate the risk of further defaults and deferments while preserving its legal rights against its defaulting customers.

On 3 November 2008 the Company advised ASX that it had signed a binding Heads of Agreement with its major shareholder, APAC Resources Limited (**"APAC"**), and a further binding Heads of Agreement with Shougang Concord International Enterprises Company Limited (**"Shougang Concord"**) covering various proposed agreements.

On 26 November 2008 the Company advised ASX that it had entered into the following agreements whereby:

- During November and December, 2008 (**"Short Term Offtake"**) APAC and Shougang Concord would purchase all of the Consolidated Entity's available production at US$40 per WMT;
- Between 1 January and 30 June 2009 (**"Medium Term Offtake"**) Shougang Concord would purchase all of the Consolidated Entity's available production at US$56 per WMT;
- From 1 July 2009 onwards (**"Long Term Offtake"**) APAC and Shougang Concord would purchase all of the Consolidated Entity's available production at Hamersley benchmark price less 10%;
- APAC and Shougang Concord would underwrite a 1 for 5 renounceable rights issue at A$0.60 per share to raise gross proceeds of A$96,523,674 (**"Rights Issue & Underwriting"**); and
- Shougang Concord would subscribe for a placement of 110,000,000 ordinary shares at A$0.60 per share to raise an additional A$66,000,000 (**"Placement"**).

The following approvals were required for these agreements:

- The Placement and the Underwriting were conditional upon approval by the Foreign Investment Review Board which was received by APAC and Shougang Concord on 16 December 2008;
- The APAC Rights Issue and Underwriting were conditional upon APAC shareholders approval which was received on 29 December 2008; and
- The Medium Term Offtake and Long Term Offtake, together with the Underwriting and the Placement, were subject to Mount Gibson shareholder approval. The Company's shareholders approved these transactions at an extraordinary general meeting held on 30 December 2008.

The Placement was completed and proceeds received by the Company on 31 December 2008.

The Rights Issue closed on 6 January 2009. The Rights Issue shortfall of 79% was taken up by the Underwriters. All proceeds from the Rights Issue were received by 12 January 2009.

At completion of the Placement and Rights Issue:

- APAC owned 279,877,773 shares in the Company representing 26.03 % of the issued share capital; and
- Shougang Concord owned 154,166,874 shares in the Company representing 14.34 % of the issued share capital

The impact of some of its customers defaulting on the Consolidated Entity's near term cash flows, together with the desire of the Consolidated Entity to recommence priority development at Koolan Island and Extension Hill required the raising of additional equity finance. The Rights Issue and Placement together raised gross proceeds of A$162,523,697. Together with existing cash reserves, the additional funds raised will better place the Consolidated Entity to recommence priority development activities and mitigate the impact on the Consolidated Entity of any near term volatility in the iron ore and financial markets. But for the failure of some of its customers to comply with the terms of binding offtake agreements, the Company would not have required the capital raising.

Until November 2008, the Consolidated Entity had in place a number of long term offtake agreements with various traders and steel mills covering life of mine production from each of Tallering Peak, Koolan Island and Extension Hill. Those agreements provided for the Consolidated Entity to sell ore at prices determined by reference to the Hamersley Benchmark Iron Ore Price. During the December quarter the Company announced that a number of its customers had failed to collect iron ore cargoes in accordance with binding purchase agreements. Agreements with three of these customers namely, Pioneer Iron and Steel Group Co Ltd, Rizhao Steel Holding Group Co Ltd and Sinom (Hong Kong) Ltd, were subsequently terminated in accordance with their terms.

Directors' Report (continued)

Arbitration proceedings are now underway between Mount Gibson and each of these former customers. Mount Gibson is seeking to recover the losses it claims arising from the termination of the agreements. Two of these former customers have issued counterclaims on the basis that the termination by Mount Gibson was not justified. Mount Gibson is confident that the counterclaims are without substance. The arbitrations are progressing and it is unlikely that there will be final determinations by the end of 2009.

During the period the Consolidated Entity continued to mine ore at Koolan Island and Tallering Peak. At both sites, material operational changes were made to optimise mine performance in the near term to minimise cash expenditure. These changes had the effect of reducing forecast ore production, sales and cash expenditure from those sites in the 2009 financial year.

The Consolidated Entity temporarily suspended development activities at the Main Pit of Koolan Island and recommenced these activities in July 2009. This deferred the commencement of ore mining from Main Pit for a minimum of 6 months to the 2011 financial year. Sufficient ore is available within the satellite deposits at Koolan Island to continue producing saleable product during this delay.

The Consolidated Entity also deferred the T6B2 cut back at Tallering Peak until July 2009.

Some construction activities at Extension Hill were deferred, whilst commencement of ore production is rescheduled to the second half of 2010. All contracts with key suppliers have been reviewed and appropriate suspensions and terminations executed with no material penalties being incurred.

As a consequence of the forecast reduction in revenue from October 2008 to June 2009, at 31 December 2008, the Consolidated Entity had outstanding US dollar foreign exchange forward contracts totalling US$186,500,000 in excess of forecast US$ revenues for that period. Note 32(b) to this Financial Report sets out the details of the restructure of part of the foreign exchange hedge portfolio.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

A summary of the operating results for the Consolidated Entity is set out below:

	CONSOLIDATED	
	2009	**2008**
	$'000	**$'000**
Operating profit from Continuing Operations before tax	**61,709**	**163,857**
Taxation (expense)	(19,091)	(50,513)
Net profit after tax attributable to Members of the Company	**42,618**	**113,344**

Tallering Peak Hematite Operations

Tallering Peak's operating performance in the September quarter was in line with forecast with strong production and sales results. Mining at Tallering Peak was scaled back in the December quarter as a result of customers requesting iron ore shipment deferments or failing to collect iron ore cargoes pursuant to binding iron ore sales agreements.

Total material movement reduced by 25% at Tallering Peak during the December quarter compared with the September quarter. To minimize cash expenditure during the six months to June without compromising ore production, the T6A3 cutback was divided into two staged cutbacks namely the T6A3a and T6A3b. Initially production for the half focused on pre-strip of the T6A3 cutback however the modification of the mine plan in the December quarter focused production on the T6A3b cutback with high grade ore being sourced from the T6A1 and T6A2 cutbacks as required. Excess equipment engaged in the T6A3 cutback was demobilized resulting in a reduction of 40 employees across the site and mine operations were shut down for two weeks in December to minimize cash expenditure whilst drawing down on existing ore stockpiles at the mine and Ruvidini rail yard. Minor capital projects were suspended and this, combined with a reduction in physical activity on the site, reduced mine expenditure significantly. Crusher maintenance was performed during October and November whilst throughput requirements were reduced.

Directors' Report (continued)

The March quarter total material movement was 13% lower than the December quarter whilst ore production was consistent with the December quarter. Production for the March quarter focused on T6A2 cutback with high grade ore being sourced from the T6A1. By the end of the March quarter the T6A2 cutback was well advanced. Crusher throughput was increased 21% during the March quarter to match scheduled high grade ore deliveries and provide blending stockpiles at the Ruvidini railhead. The 10 millionth tonne of Tallering Peak iron ore was delivered by rail to the Geraldton Port during the March quarter whilst a 57% increase in rail haulage compared with the previous quarter represented a rail haulage record to the Geraldton Port from the Ruvidini railhead.

In the June quarter, Tallering Peak continued its strong physical and sales performance with near record shipments from the Geraldton Port. Total material movement and crusher throughput both increased compared with the March quarter to build ore stockpiles in preparation for a preventative maintenance shutdown of the Tallering Peak crusher in the September quarter. Waste movement increased 5% compared with the March quarter whilst ore production was 10% higher. Production focused on the T6A2 cutback with high grade ore being sourced from the T6A1 and T6A2 cutbacks. Crusher throughput increased 31% compared to the previous quarter with rail haulage and shipping in line with the previous record quarter.

As at 30 June 2009, 1.35 million tonnes of iron ore was stockpiled.

PRODUCTION SUMMARY FOR 12 MONTHS	**UNIT**	**SEPT QTR 2008 '000**	**DEC QTR 2008 '000**	**MAR QTR 2009 '000**	**JUN QTR 2009 '000**	**YTD 2009 '000**	**YTD 2008 '000**	***% INCR/ (DECR)***
Mining								
- Waste mined	bcm	2,464	1,825	1,574	1,661	**7,524**	**9,989**	*(25%)*
- Ore mined	wmt	623	570	569	626	**2,388**	**3,841**	*(38%)*
Crushing								
- Lump	wmt	487	282	389	509	**1,667**	**2,005**	*(17%)*
- Fines	wmt	312	199	192	250	**953**	**1,359**	*(30%)*
		799	**481**	**581**	**759**	**2,620**	**3,364**	*(22%)*
Transported to Mullewa Railhead								
- Lump	wmt	452	301	337	464	**1,554**	**1,858**	*(16%)*
- Fines	wmt	381	157	198	189	**925**	**1,138**	*(19%)*
		833	**458**	**535**	**653**	**2,479**	**2,996**	*(17%)*
Transported to Geraldton Port								
- Lump	wmt	320	236	392	435	**1,383**	**1,732**	*(20%)*
- Fines	wmt	344	258	385	310	**1,297**	**753**	*73%*
		664	**494**	**777**	**745**	**2,680**	**2,485**	*8%*
Shipping								
- Lump	wmt	351	235	388	465	**1,439**	**1,775**	*(19%)*
- Fines	wmt	305	294	368	286	**1,253**	**793**	*58%*
		656	**529**	**756**	**751**	**2,692**	**2,568**	*5%*

In accordance with the Company's stated accounting policy, deferred waste expenditure for the period has been capitalised in the Consolidated Entity's balance sheet and will be amortised over the expected life of the mine. Expenditure on waste development at Tallering Peak during the financial year was as follows:

		12 Months ended 30 June 2009	**12 Months ended 30 June 2008**	**12 Months ended 30 June 2007**
Waste mined	mill bcm	7.5	9.9	9.6
Deferred waste capitalised	$ mill	89.88	97.60	93.24
Amortisation of deferred waste	$ mill	69.11	80.66	53.57

Directors' Report (continued)

Koolan Island Hematite Project

Koolan Island which is located in the Buccaneer Archipelago of Yampi Sound in Western Australia was opened by BHP in 1965 and operated until 1993. BHP mined approximately 68 million tonnes of high grade hematite ore from five pits at Koolan – Main, Mullet, Eastern, Barramundi and Acacia.

In early 2000, Aztec Resources Limited ("**Aztec**") acquired Koolan Island and in May 2003 an exploration licence was granted over Koolan Island. During 2003, Aztec undertook a review of available BHP data, carried out site inspections and committed to an exploration/feasibility study programme in 2004. Exploration drilling commenced in February 2004 and the bankable feasibility study was completed in August 2005. Mount Gibson acquired Aztec in February 2008.

The Koolan orebodies are tabular, generally high-grade hematite bodies which are estimated to produce a 30% Lump 70% Fines product with consistently high grades from the Main Ore body (>67% Fe). Initial production from established satellite pits of Mullet, Acacia and Barramundi, which contain lower Fe% and higher contaminants than ore from the Main Pit, has produced approximately 40% Lump 60% Fines product.

Recommencement of open pit mining from the satellite orebodies and stockpiling of ore on the ROM pad occurred in the December quarter 2006. Construction of the shiploader, jetty facilities and crushing and screening plant were completed and commissioned in May 2007 with the first ore shipment taking place in June 2007. At the forecast production rate of 4 Mtpa (production ramps to this rate over the period to the 2011/12 financial year), and based on existing ore reserves, production is expected to continue for at least 8 years to 2017 with potential to increase resources as a consequence of the planned exploration drilling to be undertaken over the next 2 to 3 years.

In June 2009 the Consolidated Entity entered into a formal Heritage Protection and Exploration Agreement with the Dambimangari Native Title Group in relation to Koolan Island's Western Iron Ore Targets. The western region of Koolan Island is a largely unexplored area that to date has never been drilled. Strongly developed hematite bearing ridges are known to occur through the area, including some spectacular coastal outcrops.

Koolan Island started the financial year as forecast with strong ore sales and record material movements in the September quarter. Operations at Koolan Island were modified substantially in the December Quarter resulting from iron ore customers either deferring shipments or failing to collect cargoes in accordance with binding iron ore purchase agreements. Mount Gibson moved quickly to minimise cash expenditure by reducing mine operating activity, reducing equipment, personnel requirements and suspending capital project activity. Consequently, equipment utilised on short term hire agreements was demobilized, seawall construction suspended, Main Pit Footwall rehabilitation suspended, Main Pit dewatering scaled back, non critical capital works suspended, Main West cut back suspended, Blinker Hill cut back suspended and Crusher Hill cut back suspended, resulting in a reduction of the contract workforce of 160 personnel and a reduction in total material movement of 31% compared with the September quarter whilst ore production was reduced by 23% when compared with the September quarter.

With the suspension of both the Main Pit cut back and Main West Pit, operations focused on the East-Barramundi and Mullet-Acacia pits.

Total material movement for the March quarter was 18% below the December quarter however ore production and sales increased by 35% compared with the previous quarter. Total material movement was restricted by increased tropical cyclone activity and associated rainfall which exceeded the corresponding period last year by 38% and exceeded the average rainfall by 64%. The official wet season from December to March dumped in excess of 960mm of rain on Koolan Island restricted ore production from the Mullet Pit to elevated and dryer benches. Development of the Mullet pit also focused on establishing long term haul road access and cutting back the Acacia ore zone.

Ore production for the March quarter was largely sourced from Eastern Pit with mining of the original BHP lower bench being completed which has exposed the central ore zone and reduced the pit stripping ratio. Backfilling of the Barramundi West pits was well advanced during the quarter and rehabilitation of this area has commenced.

Total material movement for the June quarter was 38% higher than previous quarter as fine weather conditions returned to the Kimberley region following the annual monsoonal season. Ore sales increased 58% compared with the previous quarter and were at near record levels.

Record ore production for the June quarter was largely sourced from Eastern Pit which progressed below the original BHP pit limit and exposed the central ore zone reducing the pit stripping ratio. The upper benches of Barramundi West pit were mined whilst the backfilling of the Barramundi Limb was completed. The use of temporary ramps in Mullet Pit was discontinued during the June quarter with the final ramp being established whilst the southern cut back progressed as scheduled.

Mullet-Acacia Pit and East-Barramundi Pit will dominate ore production for the next 12 months at Koolan Island with development of Main Pit and the Main West cut back having recommenced in July 2009. People and equipment mobilized to Koolan Island in July for the recommencement of seawall construction, footwall rehabilitation and Main Pit dewatering activity. Access to high grade and quality iron ore from Main Pit is scheduled in the 2011 financial year.

Directors' Report (continued)

PRODUCTION SUMMARY FOR 12 MONTHS	UNIT	SEPT QTR 2008 '000	DEC QTR 2008 '000	MAR QTR 2009 '000	JUN QTR 2009 '000	YTD 2009 '000	YTD 2008 '000	% INCR/ (DECR)
Mining								
- Waste mined	bcm	3,998	2,747	2,181	2,939	**11,865**	**8,529**	*39%*
- Ore mined	wmt	902	696	715	1,211	**3,524**	**3,047**	*16%*
Crushing								
- Lump	wmt	368	157	200	249	**974**	**1,291**	*(25%)*
- Fines	wmt	609	299	420	624	**1,952**	**1,682**	*16%*
		977	**456**	**620**	**873**	**2,926**	**2,973**	*(2%)*
Shipping								
- Lump	wmt	361	222	217	144	**944**	**1,306**	*(28%)*
- Fines	wmt	415	209	364	775	**1,763**	**1,594**	*11%*
		776	**431**	**581**	**919**	**2,707**	**2,900**	*(7%)*

Expenditure on waste development at Koolan Island during the financial year was as follows:

		12 Months ended 30 June 2009	12 Months ended 30 June 2008	12 Months ended 30 June 2007
Waste mined	*mill bcm*	11.9	8.5	1.7
Deferred waste capitalised	*$ mill*	159.99	125.51	7.86
Amortisation of deferred waste	*$ mill*	105.73	55.32	1.94

Extension Hill Direct Shipping Ore Project

Located in the Mount Gibson Ranges, 85 kilometres east of Perenjori and 260 kilometres east south east of Geraldton, the Extension Hill hematite deposit has Probable Reserves of 12.8 million tonnes and Ore Resources of 19.5 million tonnes.

During the 2007/08 financial year the Mount Gibson Board approved the Detailed Feasibility Study ("**DFS"**) for production and sale of 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore project ("**DSO Project"**).

The DSO Project has very similar operational characteristics to Mount Gibson's Tallering Peak operation with the added advantage of a lower strip ratio. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85 kilometres to Perenjori and loaded onto rail wagons for a 235 kilometre journey to the Geraldton Port. Ore will be stored at the Geraldton Port at Mount Gibson's ore storage facilities being constructed at the new Berth 5 iron ore ship loading facility and loaded from Berth 5 for export. An upgrade of rail unloading facilities necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the GPA to construct.

All environmental approvals required to operate the Extension Hill Hematite Mine including the Hematite Transport Proposal have been received.

Development and construction commenced in mid 2008 with the commencement of operations at Extension Hill originally scheduled for the June quarter of 2009.

As a result of customer offtake defaults, in November 2008, Mount Gibson announced that all works associated with the Extension Hill Project would be suspended. Mount Gibson initially scheduled a 12 month suspension of the Extension Hill project. Market conditions and the upgrade of the rail unloader at the Geraldton Port will however ultimately dictate the timing of bringing the Extension Hill mine into production. All contracts with key suppliers have been reviewed and appropriate suspensions and terminations executed with no material penalties being incurred.

Detailed design of site infrastructure, transport corridor, rail siding at Perenjori and port facilities were completed during the half. The accommodation camp, site office complex, primary communications equipment and the communications tower for the mine site were delivered during the half and are in storage pending recommencement of construction activity.

Numerous items purchased directly by the Company for the Extension Hill mine site continue to be delivered in accordance with the various purchase orders issued prior to suspending work and the company has leased facilities to store this equipment until such time as construction and development activity recommences.

Civil works for the Berth 5 storage facilities at Geraldton Port were completed and the civil contractor demobilized from site during the December quarter. Whilst the fabrication and delivery of structural steelwork for the Berth 5 storage facilities was well advanced at the time the overall project works were suspended and Mount Gibson elected to have the contractor engaged to undertake this work complete the fabrication of all major structural steel components and deliver all fabricated sections to the Berth 5 work site prior to suspending steelwork erection.

Items purchased directly by the Company for the new Berth 5 Storage facility continue to be delivered in accordance with existing contracts and purchase orders issued prior to suspending work whilst the company has leased suitable warehouse facilities to store this equipment until such time as construction and development recommences.

Westnet Rail has undertaken minor works associated with upgrading the existing rail line between Perenjori and Geraldton to allow for ongoing grain transportation. All other work on the rail upgrade remains suspended.

All 190 new rail wagons for the Extension Hill project were delivered during the June quarter. Commissioning of all new wagons is scheduled to be completed during the September 2009 quarter.

The recommencement of detailed design and construction work to upgrade the existing rail unloader and associated materials handling system will be sequenced such that these facilities are completed at the same time as the new Berth 5 storage facility. The sole long lead item (primary feeder Hagglunds drive) required for the Rail Unloader Upgrade Project ordered prior to suspending works on this project was delivered during the June quarter.

Reverse circulation infill resource drilling of the Extension Hill DSO resource commenced in late November 2008 and was completed in early April 2009. A total of 492 holes were drilled during the program totalling 20,909m including 22 holes (1,512m) drilled during April. All outstanding assay results were returned and detailed resource modelling has been ongoing. At the end of the quarter the geological and orebody models were finalised and grade estimation commenced.

The large increase in available data, including downhole geophysics (density, magnetic susceptibility and gryoscopic directional surveys) has enabled a major improvement in the interpretation and understanding of this orebody.

Directors' Report (continued)

The highest grade central core of the mineralisation is dominated by massive hematite that appears to be the result of oxidation and other chemical activity on the primary magnetite mineralisation that underlies the deposit. Some of the hematite occurs as "feeders" that can merge to form wide high grade ore zones. Within the top 10m below the surface more recent weathering processes resulted in alteration to goethite dominated mineralisation. On the western flank a thick, broad sub-horizontal zone of re-cemented and lateritised detrital goethite dominated mineralisation reflects an ancient paleosurface and suggests significantly steeper topography than present today. Low grade canga style mineralisation outcrops variably over the surface on both flanks of the Extension Hill mineralisation.

The main high grade hematite mineralisation shows strong along strike (north-south) continuity with highly variable morphology and grade distribution with structural pinching and swelling and some minor cross-faulting. An updated Resource and Reserve estimate of the Extension Hill DSO project will be compiled in the September Quarter.

Review of Financial Condition

During the course of the financial year a number of events impacted on the financial condition of the Consolidated Entity as follows:

- Shareholders funds increased by $183,989,312 (31%) to $780,480,517:
  - On 31 December 2008, Shougang Concord subscribed for a placement of 110,000,000 ordinary shares at A$0.60 per share to raise an additional A$66,000,000 (before expenses)
  - On 12 January 2009 the Company completed a 1 for 5 fully underwritten renounceable rights issue at A$0.60 per share to raise gross proceeds of A$96,523,674 (before expenses) which resulted in additional 160,872,790 fully paid ordinary shares being issued;
  - Holders of 515,000 options exercised their options resulting in $441,850 in equity funding for the Company
- On 30 June 2009 the Company restructured the existing debt facilities (see Note 16).
- On 30 June 2009 the Company restructured a portion of its foreign exchange hedge portfolio (see Note 32[b]).
- Acquisition of property, plant and equipment with an aggregate fair value of $14,508,222 that were financed by means of finance leases.
- Mine properties increased by $56,604,291 primarily due to deferred waste capitalised as a result of increase in waste mined at Tallering Peak and Koolan Island.

At 30 June 2009 the Consolidated Entity had:

- Cash on hand of $222,172,726;
- Corporate Debt of $105,000,000; and
- Equipment finance leases and hire purchase liabilities of $63,408,320.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in the Review and Results of Operations and in this report, further information as to likely developments in the operations of the Consolidated Entity and likely results of those operations would, in the opinion of the Directors, be speculation and not in the best interest of the Company.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 5 August 2009 the High Court of the Hong Kong Special Administrative Region dismissed an application by Sinom (Hong Kong) Limited for an injunction to restrain Mount Gibson Mining Limited from presenting a winding–up petition based on debt demanded in a statutory demand of 24 October 2008. On 6 August 2009 Mount Gibson Mining Limited filed a winding-up petition with the High Court of the Hong Kong Special Administrative Region in respect of the unsatisfied debt demanded in the statutory demand.

Apart from the above, as at the date of this report there are no significant events after balance date of the Company or of the Consolidated Entity that require adjustment of or disclosure in this report.

Directors' Report (continued)

SHARE OPTIONS

Unissued shares

Details of Options over Ordinary Shares in the Company on issue as at balance date and at the date of this report are:

		Options on issue at	
Exercise Price	**Exercise Date / Period**	**Balance date**	**Date of report**
78 cents	On or before 31 December 2009	250,000	250,000
89 cents	On or before 31 December 2009	1,621,000	1,621,000
299 cents	On or before 31 December 2009	6,900,000	6,850,000
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
	Total	**15,771,000**	**15,721,000**

In addition, as at 30 June 2009, there were nil (2008: 8,475,000) options granted but not issued under the Employee Share Scheme. Option holders do not have any right, by virtue of the Option, to participate in any share issue of the Company.

Shares issued as a result of the exercise of options

During the financial year, 515,000 options were exercised to acquire fully paid ordinary shares in the Company at a weighted average exercise price of $0.86. Since the end of the financial year, no options have been exercised, however 50,000 options have been forfeited.

DIVIDENDS

No dividends were paid during the period and no recommendation is made as to dividends.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has, during the financial period, entered into deeds of access and indemnity with each Director. 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 Consolidated Entity's business.

During the financial year, the Company has paid premiums in respect of a contract insuring all the Directors of the Company against costs incurred in defending proceedings except for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid was $114,868. This amount has not been included in Directors' and Executives' remuneration.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

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

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

Nomination, Remuneration and Governance Committee ("NRGC")

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 Company and its Controlled Entities 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, 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. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 26 November 2008 when Shareholders approved an aggregate remuneration of $750,000 per 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.

All Non-Executive Directors' performance and remuneration is reviewed on an annual basis by the Chairman.

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

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

Non-Executive Directors are eligible to receive options under the Company Employee Option Scheme, subject to approval by Shareholders.

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

Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on market). It is considered good governance for Directors to have a stake in the Company on whose board they sit.

Executive Directors and Senior Executives Remuneration

Objective

The Company aims to reward Executive Directors and Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward the Executive Directors and Senior Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interest of the Executive Directors and 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.

Fixed Remuneration

The components of the Executive Directors and Senior Executives fixed remuneration are determined individually and may include:

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

The Executive Directors' remuneration is reviewed on an annual basis by the Non-Executive Directors. The Senior Executives' remuneration is reviewed on an annual basis by the Managing Director.

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. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Variable Remuneration

Short-term Incentive ("STI")

The Executive Directors and Senior Executives may receive variable remuneration in the form of STI. STI are linked to general performance targets and provide rewards for materially improved Company performance. The total potential STI available is at the Boards discretion but is measured to provide sufficient incentive to the Executive Directors and Senior Executives to achieve the operational targets and such that the cost to the Consolidated Entity is reasonable in the circumstances. Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. These targets consist of a number of Key Performance Indicators (**"KPI's"**) covering both financial and non-financial, corporate and individual performance measures. The STI's are based on achieving the following measures where these are applicable to the specific Executive:

- performance of the Consolidated Entity in meeting its objectives which include contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the Consolidated Entity;
- increase in market capitalisation of the Consolidated Entity;
- such other matters determined by the NRGC in its discretion.

These measures have been selected to align the interests of Executives with shareholders representing the key drivers for short term success of the business and providing a framework for delivering long term value.

The Consolidated Entity has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, the individual performance of each Senior Executive is reviewed by the NRGC, which is in line with their responsibilities, after consideration of the Executive's performance against KPI's. This process usually occurs prior to or just after the reporting date. NRGC then determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus prior to or just after the reporting date.

STI bonus for 2008 and 2009 financial years

For the 2008 financial year, 100% of the STI cash bonus totalling $581,600 was approved and vested to Executive Directors and Senior Executives. $431,600 was paid in the 2008 financial year. For the 2009 financial year 64% of the STI cash bonus totalling $478,572 has been approved and vested to Executive Directors and Senior Executives. $320,000 was paid in the 2009 financial year.

Directors' Report (continued)

Long-term Incentive ("LTI") for 2008 and 2009 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 three years' continuous service, subject to satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("**TSR**") measured against the TSR of a comparator group of companies over the same period. A TSR hurdle was incorporated in the PRP as it 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 Company received shareholder approval for the issue of the performance rights to Mr Tonkin and Mr Rule at its 2007 AGM.

The employment contracts for the Managing Director, Mr Tonkin, the Chief Financial Officer, Mr Rule and the Company Secretary, Mr Berg incorporate payment of a long term incentive. Under their employment contracts, Mr Tonkin, Mr Rule and Mr Berg will each year each be invited to apply for, and the Company will grant a number of performance rights equivalent 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 to 30 June for the relevant year.

Performance rights totalling 113,140 were allocated on 19 September 2008 by the Company to Mr Tonkin and Mr Rule in respect of the 2008 financial year.

Performance rights totalling 492,677 were allocated on 30 June 2009 by the Company to Mr Tonkin, Mr Rule and Mr Berg in respect of the 2009 financial year. The Company does not have a policy restricting executives from entering into arrangements to protect the value of LTI awards.

Employment Contracts

As at the date of this report, the Consolidated Entity had entered into employment contracts with the following Executive Director, Senior Executive and Company Secretary:

Luke Tonkin

The key terms of his contract include:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one third 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 Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Tonkin wishes to terminate the contract, he must provide six months notice.

Alan Rule

The key terms of his contract include:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one third 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 Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Rule wishes to terminate the contract, he must provide six months notice.

David Berg

The key terms of his contract include:

- Commenced 18 August 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one third 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 Berg is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Berg wishes to terminate the contract, he must provide six months notice.

Directors' Report (continued)

Details of Key Management Personnel

[i] Directors

N Hamilton	Chairman
L Tonkin	Managing Director
C Readhead	Non-Executive Director
I Macliver	Non-Executive Director
A Jones	Non-Executive Director
C Zhong	Non-Executive Director (appointed 2 December 2008)
C Zhouping	Non-Executive Director (appointed 19 January 2009)
R Willcocks	Alternate Director to C Zhong (appointed 22 December 2008)
A Rule	Chief Financial Officer and Alternate Director to Mr Tonkin

[ii] Executives

D Quinlivan	Chief Operating Officer
D Berg	Company Secretary – from 21 August 2008
R Mencel	General Manager – Tallering Peak
R Richardson	General Manager – Koolan Island from 1 October 2008
R Jordinson	General Manager – Koolan Island until 30 September 2008

Remuneration of Key Management Personnel and highest paid executives for the year ended 30 June 2009

	Short Term			Post Employment		Share Based Payment		
	Salary & Fees $	Non Monetary $	Cash Bonuses $	Superannuation $	Retirement Benefits $	Options and Performance Rights $	Total $	% Performance Related
Directors								
N Hamilton	199,083	-	-	17,917	-	-	**217,000**	0%
L Tonkin	650,000	1,637	150,000	50,000	-	646,437	**1,498,074**	53%
C Readhead	111,000	-	-	-	-	-	**111,000**	0%
I Macliver	105,505	-	-	9,495	-	-	**115,000**	0%
A Jones	94,495	-	-	8,505	-	-	**103,000**	0%
C Zhong	55,178	-	-	-	-	-	**55,178**	0%
C Zhouping	42,425	-	-	-	-	-	**42,425**	0%
R Willcocks	-	-	-	-	-	-	**-**	0%
A Rule	458,716	1,637	107,143	41,284	-	216,789	**825,569**	39%
Sub-total directors	**1,716,402**	**3,274**	**257,143**	**127,201**	**-**	**863,226**	**2,967,246**	
Executives								
D Quinlivan	676,813	1,637	-	-	-	-	**678,450**	0%
D Berg	191,955	1,422	51,429	17,276	-	14,917	**276,999**	24%
R Mencel	302,500	-	20,000	27,225	-	37,967	**387,692**	15%
R Richardson	195,001	-	-	17,550	-	-	**212,551**	0%
R Jordinson	119,000	730	150,000	-	-	9,570	**279,300**	57%
Sub-total executives	**1,485,269**	**3,789**	**221,429**	**62,051**	**-**	**62,454**	**1,834,992**	
Totals	**3,201,671**	**7,063**	**478,572**	**189,252**	**-**	**925,680**	**4,802,238**	

Directors' Report (continued)

Options granted as part of remuneration for the year ended 30 June 2009

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 Consolidated Entity 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 2009.

Performance Rights granted as part of remuneration for the year ended 30 June 2009

	Allocation Date	Allocation Number	Value of Performance Rights Granted During the Year $	% of Remuneration
L Tonkin	19-Sep-08	66,077	121,582	8%
L Tonkin	30-Jun-09	239,496	143,698	10%
A Rule	19-Sep-08	47,063	86,596	11%
A Rule	30-Jun-09	171,068	102,641	13%
D Berg	30-Jun-09	82,113	49,267	19%

Performance Rights granted above as part of Remuneration have been independently valued using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows the incorporation of the market based performance hurdles that must be met before the Performance Rights vest. The value per option at grant date is calculated using the following assumptions:

Accounting grant date	Aug-08
Share price at grant date	$1.91
Risk free interest rate	5.69%
Volatility factor	55%

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("**TSR**") hurdle to be measured on:

- 30 June 2010 and remeasured on 31 December 2010 for Performance Rights allocated on 19 September 2008; and
- 30 June 2011 and remeasured on 31 December 2011 for Performance Rights allocated on 30 June 2009.

Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 62 resource companies listed on ASX. The vesting scale 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%

Shares issued on exercise of options for the year ended 30 June 2009

There were no shares issued on exercise of options by the directors and executives during the year ended 30 June 2009.

Options vested to directors and executives

	Year ended 30 June 2009	Year ended 30 June 2008
L Tonkin	3,000,000	-
A Rule	2,000,000	-
R Mencel	350,000	250,000
R Jordinson	100,000	-
Total	5,450,000	250,000

Remuneration of Key Management Personnel for the year ended 30 June 2008

	Short Term			Post Employment		Share Based Payment		
	Salary & Fees $	Non Monetary $	Cash Bonuses $	Superannuation $	Retirement Benefits $	Options and Performance Rights $	Total $	% Performance Related
Directors								
N Hamilton	172,844	-	-	15,556	-	-	**188,400**	0%
L Tonkin	592,083	1,414	210,600	48,289	-	715,163	**1,567,549**	59%
C Readhead	85,000	-	-	-	-	-	**85,000**	0%
I Macliver	82,560	-	-	7,440	-	-	**90,000**	0%
A Jones	73,394	-	-	6,606	-	-	**80,000**	0%
P Bilbe	45,125	-	205,000	4,061	-	-	**254,186**	81%
M Horn	62,500	-	-	-	-	-	**62,500**	0%
A Rule	412,844	1,414	150,000	37,156	-	368,710	**970,124**	53%
Sub-total directors	**1,526,350**	**2,828**	**565,600**	**119,108**	**-**	**1,083,873**	**3,297,759**	
Executives								
D Quinlivan	683,644	1,414	-	-	-	-	**685,058**	0%
R Mencel	271,250	-	16,000	24,413	-	62,903	**374,566**	21%
R Jordinson	515,000	-	-	-	-	35,903	**550,903**	7%
Sub-total executives	**1,469,894**	**1,414**	**16,000**	**24,413**	**-**	**98,806**	**1,610,527**	
Totals	**2,996,244**	**4,242**	**581,600**	**143,521**	**-**	**1,182,679**	**4,908,286**	

Options granted as part of remuneration for the year ended 30 June 2008

	Grant Date	Exercise Price	Grant Number	Value per Option @ Grant Date $	Value of Options Granted During the Year $	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
R Mencel	9-Jan-08	$2.99	100,000	0.7387	73,870	N/A	N/A	N/A	20%
R Jordinson	9-Jan-08	$2.99	100,000	0.7387	73,870	N/A	N/A	N/A	13%

These options were granted but not yet issued on the basis that the executives must complete their employment service to 31 December 2008 before they vest.

Options granted as part of Senior Executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	9-Jan-08
Vesting date	31-Dec-08
Share price at grant date	$2.80
Exercise price	$2.99
Risk free interest rate	6.53%
Volatility factor	53%
Expiry date	31-Dec-09

Shares issued on exercise of options for the year ended 30 June 2008

There were no shares issued on exercise of options by the directors and executives during the year ended 30 June 2008.

Performance Rights granted as part of remuneration for the year ended 30 June 2008

	Grant Date	Grant Number	Value per Right @ Grant Date $	Value of Performance Rights Granted During the Year $	% of Remuneration
L Tonkin	18-Apr-08	161,681	$2.61	421,987	27%
A Rule	18-Apr-08	121,261	$2.61	316,491	33%

Performance Rights granted as part of Remuneration have been independently valued using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows the incorporation of the market based performance hurdles that must be met before the Performance Rights vest. The value per option at grant date is calculated using the following assumptions:

Grant date	18-Apr-08
Share price at grant date	$2.72
Risk free interest rate	6.29%
Volatility factor	52%
Performance period start date	1-Jul-07
Performance period end date	30-Jun-10

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("**TSR**") hurdle to be measured at 30 June 2010 and 31 December 2010. Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 62 resource companies listed on ASX. The vesting scale 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%

Company Performance

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

		30 June 2009	30 June 2008	30 June 2007	30 June 2006	30 June 2005
Net Profit after tax	$'000	42,618	113,344	47,765	23,479	13,502
Earnings per share	$/share	0.0456	0.1425	0.0753	0.0574	0.0366

Directors' Report (continued)

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 is as follows:

	Directors' Meetings	Audit and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee
Number of Meetings Held	14	2	3
N Hamilton	14	-	3
L Tonkin	14	-	-
C Readhead	14	2	3
I Macliver	14	2	3
A Jones	14	2	-
C Zhou [1]	5	-	-
C Zhouping [2]	5	-	-
R Willcocks [3]	-	-	-
A Rule [4]	-	-	-

[1] Mr Cao only appointed as a director on 1 December 2008
[2] Mr Chen only appointed as a director on 19 January 2009
[3] Mr Willcocks did not attend any meetings as an alternate director during the year
[4] Mr Rule did not attend any meetings as an alternate director during the year

INTERESTS IN THE SHARES AND OPTIONS 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
N Hamilton	185,000	-	-
L Tonkin	-	5,000,000	467,254
C Readhead	567,500	-	-
I Macliver	1,000,000	-	-
A Jones	100,000	-	-
C Zhou	-	-	-
C Zhouping	-	-	-
R Wilcocks	50,000	-	-
A Rule	50,000	2,000,000	339,392

Directors' Report (continued)

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity has developed Environmental Management Plans for its operations at Koolan Island, Tallering Peak and the rail head at Ruvidini. The Environmental Management Plans have been approved by the West Australian Government Departments' of Industry & Resources, Environment and Conservation and Land Management.

The Environmental Protection Authority has granted approval of the Environmental Management Plans and the Department of Environment & Conservation has granted approval of the environmental works to allow construction of "prescribed" facilities at the Extension Hill mine site.

The Consolidated Entity holds various environmental licenses and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

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 Class Order 98/0100. The Company is an entity to which the class order applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of 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 22 which forms part of this report.

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Ernst & Young, during the financial year ended 30 June 2009.

Signed in accordance with a resolution of the Directors.

N HAMILTON
Chairman
Perth, 13 August 2009

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

In relation to our audit of the financial report of Mount Gibson Iron Limited for the year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner
13 August 2009

Consolidated Income Statement

For the year ended 30 June 2009

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
CONTINUING OPERATIONS					
Sale of goods	2[a]	425,443	432,674	-	-
Other revenue	2[a]	6,287	2,500	11,219	3,712
TOTAL REVENUE		**431,730**	**435,174**	**11,219**	**3,712**
Cost of sales	2[d]	(293,497)	(244,635)	-	-
GROSS PROFIT		**138,233**	**190,539**	**11,219**	**3,712**
Other income	2[b]	45	3,881	-	-
Administration expenses	2[e]	(27,963)	(15,420)	(2,853)	(2,998)
Impairment allowance for doubtful debts	5[b]	(15,247)	-	-	-
Foreign exchange derivatives mark-to-market gain/(loss) - unrealised		(14,625)	390	(1,215)	286
Impairment of available-for-sale financial assets		(1,685)	-	(1,685)	-
Exploration expenses		(24)	(38)	-	-
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		**78,734**	**179,352**	**5,466**	**1,000**
Finance costs	2[c]	(17,025)	(15,495)	(9,666)	(9,488)
PROFIT / (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**61,709**	**163,857**	**(4,200)**	**(8,488)**
Income tax benefit/(expense)	3	(19,091)	(50,513)	1,139	2,742
NET PROFIT / (LOSS) AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**42,618**	**113,344**	**(3,061)**	**(5,746)**
Earnings per share (cents per share)					
• basic earnings per share	24	4.56	14.25		
• diluted earnings per share	24	4.55	14.12		

Consolidated Balance Sheet

As at 30 June 2009

	Notes	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	4	222,173	48,658	4,538	4,562
Trade and other receivables	5	17,224	83,436	1,230	38
Inventories	6	111,760	71,448	-	-
Prepayments		2,330	1,570	-	1
Derivative financial assets	7	2,077	25,161	175	1,559
Other assets	8	15,107	-	15,107	-
TOTAL CURRENT ASSETS		**370,671**	**230,273**	**21,050**	**6,160**
NON-CURRENT ASSETS					
Trade and other receivables	5	-	1,000	274,227	116,947
Derivative financial assets	7	147	-	-	-
Available for sale financial assets	9	-	1,113	-	1,113
Other financial assets	10	-	-	347,640	344,509
Property, plant and equipment	12	184,505	188,497	5	5
Deferred acquisition, exploration, evaluation and development costs	13	53,784	25,919	-	-
Mine properties	14	503,839	447,235	-	-
Deferred income tax assets	3	-	-	39,667	53,840
TOTAL NON-CURRENT ASSETS		**742,275**	**663,764**	**661,539**	**516,414**
TOTAL ASSETS		**1,112,946**	**894,037**	**682,589**	**522,574**
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	15	75,103	73,406	24,942	20,975
Interest-bearing loans and borrowings	16	112,508	12,415	98,179	-
Derivative financial liabilities	17	14,356	342	2,997	342
Provisions	18	2,489	1,880	-	-
TOTAL CURRENT LIABILITIES		**204,456**	**88,043**	**126,118**	**21,317**
NON-CURRENT LIABILITIES					
Provisions	18	18,303	19,112	-	-
Interest-bearing loans and borrowings	16	49,080	145,858	-	101,607
Derivative financial liabilities	17	6,942	-	-	-
Deferred income tax liabilities	3	53,684	44,532	-	-
TOTAL NON-CURRENT LIABILITIES		**128,009**	**209,502**	**-**	**101,607**
TOTAL LIABILITIES		**332,465**	**297,545**	**126,118**	**122,924**
NET ASSETS		**780,481**	**596,492**	**556,471**	**399,650**
EQUITY					
Issued capital	19[a]	556,032	397,197	556,032	397,197
Retained earnings / (accumulated losses)	21	213,823	171,205	(15,367)	(12,306)
Reserves	20	10,626	28,090	15,806	14,759
TOTAL EQUITY		**780,481**	**596,492**	**556,471**	**399,650**

Consolidated Cash Flow Statement

For the year ended 30 June 2009

	Notes	CONSOLIDATED		COMPANY	
		2009	**2008**	**2009**	**2008**
		$'000	**$'000**	**$'000**	**$'000**
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		476,838	357,139	-	-
Payments to suppliers and employees		(362,806)	(299,319)	(2,668)	(2,479)
Interest paid		(14,544)	(12,067)	(8,631)	(6,440)
NET CASH FLOWS PROVIDED BY / (USED IN) OPERATING ACTIVITIES	4[b]	**99,488**	**45,753**	**(11,299)**	**(8,919)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		5,533	2,410	162	247
Payment for costs associated with acquisition of controlled entity		-	(14,131)	-	(14,131)
Proceeds from sale of property, plant and equipment		82	684	-	-
Purchase of property, plant and equipment		(10,921)	(19,118)	-	-
Payment for deferred exploration, evaluation and development expenditure		(27,879)	(14,911)	-	-
Payment for mine properties		(17,035)	(18,102)	-	-
Purchase of available-for-sale investments		-	(168)	-	(168)
Purchase of convertible note receivable		-	(1,000)	-	(1,000)
Loans from/(to) controlled entities		-	-	(130,093)	(82,545)
Loans from/(to) other entities		-	236	-	236
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(50,220)**	**(64,100)**	**(129,931)**	**(97,361)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		162,966	10,367	162,966	10,367
Payment for capital raising		(5,352)	-	(5,352)	-
Payment for performance bonds		(15,107)	-	(15,107)	-
Proceeds from borrowings		-	105,000	-	105,000
Repayment of lease liabilities		(16,835)	(17,057)	-	-
Repayment of borrowings		-	(87,095)	-	-
Payment of borrowing costs		(1,425)	(5,008)	(1,301)	(4,876)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		**124,247**	**6,207**	**141,206**	**110,491**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		173,515	(12,140)	(24)	4,211
Cash and cash equivalents at beginning of period		48,658	60,798	4,562	351
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4[a]	**222,173**	**48,658**	**4,538**	**4,562**

Consolidated Statement of Changes in Equity

For the year ended 30 June 2009

CONSOLIDATED	Attributable to Equity Holders of the Parent					Total Equity
	Issued Capital	(Accumulated Losses) / Retained Earnings	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Other Reserves	
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2007	**386,766**	**57,861**	**8,911**	**3,963**	**(3,192)**	**454,309**
Net unrealised loss on available-for-sale financial assets				(856)		**(856)**
Net gain on cash flow hedges	-	-	-	19,607	-	**19,607**
Deferred income tax on cash flow hedges	-	-	-	(5,942)		**(5,942)**
Total income and expense for the period recognised directly in equity	**-**	**-**	**-**	**12,809**	**-**	**12,809**
Profit for the period	-	113,344	-	-	-	**113,344**
Total income and expense for the period	**-**	**113,344**	**-**	**12,809**	**-**	**126,153**
Deferred income tax on capital raising cost	64	-	-	-	-	**64**
Exercise of options	10,367	-	-	-	-	**10,367**
Share-based payment	-	-	5,599	-	-	**5,599**
At 30 June 2008	**397,197**	**171,205**	**14,510**	**16,772**	**(3,192)**	**596,492**
At 1 July 2008	**397,197**	**171,205**	**14,510**	**16,772**	**(3,192)**	**596,492**
Net impairment loss on available-for-sale financial assets	-	-	-	573	-	**573**
Net loss on cash flow hedges	-	-	-	(30,239)	-	**(30,239)**
Deferred income tax on cash flow hedges	-	-	-	9,071	-	**9,071**
Total income and expense for the period recognised directly in equity	**-**	**-**	**-**	**(20,595)**	**-**	**(20,595)**
Profit for the period	-	42,618	-	-	-	**42,618**
Total income and expense for the period	**-**	**42,618**	**-**	**(20,595)**	**-**	**22,023**
Capital raising cost	(5,352)	-	-	-	-	**(5,352)**
Deferred income tax on capital raising cost	1,221	-	-	-	-	**1,221**
Shares issued	162,524	-	-	-	-	**162,524**
Exercise of options	442	-	-	-	-	**442**
Share-based payment	-	-	3,131	-	-	**3,131**
At 30 June 2009	**556,032**	**213,823**	**17,641**	**(3,823)**	**(3,192)**	**780,481**

Consolidated Statement of Changes in Equity (continued)

For the year ended 30 June 2009

COMPANY	Attributable to Equity Holders of the Parent: Issued Capital	Accumulated Losses	Share Based Payments Reserve	Net Unrealised Gains / (Losses) Reserve	Total Equity
	$'000	$'000	$'000	$'000	$'000
At 1 July 2007	**386,766**	**(6,560)**	**8,911**	**283**	**389,400**
Net unrealised gain on available-for-sale financial assets	-	-	-	(856)	**(856)**
Net gains on cash flow hedges	-	-	-	1,174	**1,174**
Deferred income tax on cash flow hedges	-	-	-	(352)	**(352)**
Total income and expense for the period recognised directly in equity	**-**	**-**	**-**	**(34)**	**(34)**
Loss for the period	-	(5,746)	-	-	**(5,746)**
Total income and expense for the period	**-**	**(5,746)**	**-**	**(34)**	**(5,780)**
Issue of share capital for acquisition of Controlled Entity	64	-	-	-	**64**
Exercise of options	10,367	-	-	-	**10,367**
Share-based payment	-	-	5,599	-	**5,599**
At 30 June 2008	**397,197**	**(12,306)**	**14,510**	**249**	**399,650**
At 1 July 2008	**397,197**	**(12,306)**	**14,510**	**249**	**399,650**
Net impairment loss on available-for-sale financial assets	-	-	-	573	**573**
Net loss on cash flow hedges	-	-	-	(3,795)	**(3,795)**
Deferred income tax on cash flow hedges	-	-	-	1,138	**1,138**
Total income and expense for the period recognised directly in equity	**-**	**-**	**-**	**(2,084)**	**(2,084)**
Loss for the period	-	(3,061)	-	-	**(3,061)**
Total income and expense for the period	**-**	**(3,061)**	**-**	**(2,084)**	**(5,145)**
Deferred income tax on capital raising cost	1,221	-	-	-	**1,221**
Capital raising cost	(5,352)	-	-	-	**(5,352)**
Shares issued	162,524	-	-	-	**162,524**
Exercise of options	442	-	-	-	**442**
Share-based payment	-	-	3,131	-	**3,131**
At 30 June 2009	**556,032**	**(15,367)**	**17,641**	**(1,835)**	**556,471**

Notes to the Consolidated Financial Report

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

The financial report of the Company for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 13 August 2009.

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

The nature of operations and principal activities of the Consolidated Entity are the mining of hematite deposits at Tallering Peak and Koolan Island, construction and development of the Extension Hill project, and exploration and development of hematite deposits in the Mid-West region of Western Australia.

The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

(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 available-for-sale financial assets 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 ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(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.

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

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.

Investments in controlled entities are carried in the balance sheet of the Company at cost less impairment losses, if any.

(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.

(e) New accounting standards and interpretations

From 1 July 2008 the Consolidated Entity has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2008. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

The following standards and interpretations have also been adopted from 1 July 2008:

- AASB 2008-10 *Amendment to Australian Accounting Standards – Reclassification of Financial Assets* (amendments to AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 7 *Financial Instruments Disclosures*)
- Interpretation 4 (revised) *Determining whether an arrangement contains a lease*

The Consolidated Entity has not elected to early adopted any new standards or amendments.

Notes to the Consolidated Financial Report (continued)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the period ended 30 June 2009. These are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New Standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	1 January 2009	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	1 July 2009
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of "vesting conditions", introducing the term "non-vesting conditions" for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending Standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above.	1 July 2009	1 July 2009

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. This was the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project and it is expected that going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards. The AASB issued these amendments in two separate amending standards; one dealing with the accounting changes effective from 1 January 2009 and the other dealing with amendments to AASB 5, which will be applicable from 1 July 2009 [refer below AASB 2008-6].	1 January 2009	1 July 2009
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Refer to AASB 2008-5 above for more details.	1 July 2009	1 July 2009
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the "cost method" and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item is being hedged and (ii) inflation in a financial hedged item existed or was likely to exist.	1 July 2009	1 July 2009

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: • quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); • inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and • inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These amendments arise from the issuance of *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	1 July 2009
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to Australian entities is that made to IFRIC 16 which allows qualifying hedge instruments to be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements in AASB 139 that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment. These amendments arise from the issuance of the IASB's *Improvements to IFRSs*. The amendments pertaining to IFRS 5, 8, IAS 1,7, 17, 36 and 39 have been issued in Australia as AASB 2009-5 (refer below).	1 July 2009	1 July 2009
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to Australian entities is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined. These amendments arise from the issuance of the IASB's *Improvements to IFRSs*. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009-4 (refer above).	1 January 2010	1 July 2010

Reference	Title	Summary	Application date of standard*	Application date for Group*
Amendments to International Financial Reporting Standards	Amendments to IFRS 2	The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular: • the scope of AASB 2; and • the interaction between IFRS 2 and other standards. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. A "group" has the same meaning as in IAS 27 *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.	1 January 2010	1 July 2010

The impact of the adoption of these new and revised standards and interpretations has not been determined by the Company.

(f) Foreign currency translation

Both the functional and presentation currency of the Company and its Australian 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.

(g) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity 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.

(h) Trade and other 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 Consolidated Entity 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.

All sales revenue is invoiced and received in USD dollars.

Generally, on presentation of shiploading documents and 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 price is adjusted based on the final analyses of weight, chemical and physical composition, and moisture content.

(i) Inventories

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.

(j) Property, plant and equipment

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

Depreciation

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 period of the hire purchase or finance lease. 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
• Koolan Island major fleet hire purchase	5 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.

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.

(k) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Consolidated Entity in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure, including waste development, 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, with separate calculations being made for each mineral resource. Estimated future capital and waste development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. 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 plus where appropriate, a portion of measured resources).

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. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(l) Acquisition, exploration, evaluation and development costs

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 expensed as incurred, except where, at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

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.

(m) Rehabilitation costs

Long-term environmental obligations are based on the Consolidated Entity'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.

(n) Recoverable amount of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity 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.

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 if 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.

(o) Financial assets

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'loans and receivables', and 'available-for-sale financial assets'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

[i] Held-to-maturity investments

Commercial bills and bonds with fixed or determinable payments and fixed maturity dates that the Consolidated Entity has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

[ii] Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'.

Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest rate method, less impairment. Interest is recognised by applying the effective interest rate method.

[iii] Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in Non-Current Assets unless the Consolidated Entity intends to dispose of the investment within 12 months of the balance sheet date.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

(p) Trade and other payables

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

(q) 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.

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

(r) Provisions

Provisions are recognised when the Consolidated Entity 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 reporting date.

(s) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including directors) of the Consolidated Entity 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 a Monte-Carlo simulation 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 Consolidated Entity, 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 is reflected as additional share dilution in the computation of earnings per share.

(t) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave 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.

Long service leave

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

Superannuation

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

(u) 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.

(v) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

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.

Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Consolidated Entity 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.

(w) 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

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.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(x) 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.

(y) 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.

Notes to the Consolidated Financial Report (continued)

(z) Derivative financial instruments and hedging

The Consolidated Entity uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedge against interest rate movements. 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.

Cash flow hedges – forward foreign currency contracts

In relation to cash flow hedges (forward 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.

The Consolidated Entity tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 50 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

At each balance date, the Consolidated Entity 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.

Cash flow hedges – interest rate swaps

In relation to interest swaps hedged against variable rate borrowings, the settlement dates coincide with the dates on which interest is payable on the underlying debt. All interest rate swaps matched directly against the appropriate loans and interest expense are considered highly effective, and are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and reclassified into profit and loss when the interest expense is recognised. Any ineffective portion is taken to other expenses 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.

(aa) Financial instruments issued by the Consolidated Entity

[i] Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

[ii] Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(bb) Earnings per share

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.

(cc) Significant accounting judgements, estimates and assumptions

Significant accounting judgements, estimates and assumptions have been made as follows:

(i) Mine rehabilitation provision

The Consolidated Entity assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(m). 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 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.

(ii) Units of production method of depreciation

The Consolidated Entity applies the units of production method of depreciation 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 reserves and resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the Consolidated Entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The Consolidated Entity uses economically recoverable mineral resources (comprising proven and probable reserves plus where appropriate, a portion of measured resources) to depreciate assets on a unit of production basis. However, where a mineral property has been acquired and an amount has been attributed to the fair value of resources not yet designated as reserves the additional resources have been 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.

(iii) Determination of mineral resources and ore reserves

The Consolidated Entity estimates its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code'). The information on mineral resources and ore reserves were 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 reserves being restated. Such changes in the reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping costs and provisions for decommissioning and restoration.

(iv) 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 Consolidated Entity 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 proved, probable and inferred mineral resources, 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 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.

(v) 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 proved, probable and inferred mineral resources, 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 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.

(vi) Impairment of property, plant and equipment

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 flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

(vii) Deferred Waste

The Consolidated Entity has adopted a policy of deferring all waste development costs and amortising them in accordance with the accounting policy 1(k). Significant judgement is required in determining this ratio for each 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;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

(viii)Recoverability of potential deferred income tax assets

The Consolidated Entity recognises deferred income 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 Consolidated Entity 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 income tax assets recognised, which would in turn impact future financial results.

(ix) Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted and applying an estimated probability that they will vest. The fair value is determined by an external valuer using a binomial model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(x) Financial guarantees

The fair value of financial guarantee contracts has been assessed using the interest differential approach.

Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
2. REVENUE AND EXPENSES					
[a] Revenue					
Sale of ore		484,297	409,349	-	-
Realised gain/(loss) on foreign exchange hedges		(58,854)	23,325	-	-
		425,443	432,674	-	-
Other revenue					
Finance income – other persons / corporations		6,287	2,500	363	247
Finance income – intercompany loans		-	-	10,856	3,465
		6,287	2,500	11,219	3,712
[b] Other income					
Realised gain on foreign exchange		-	664	-	-
Net gain on sale of plant and equipment		45	54	-	-
Net unrealised gain on foreign exchange		-	3,163	-	-
		45	3,881	-	-
[c] Finance costs					
Finance charges on loans		10,253	11,142	9,666	9,488
Finance charges payable under finance leases		5,548	4,353	-	-
		15,801	15,495	9,666	9,488
Unwinding of discount on rehabilitation provision		1,224	-	-	-
		17,025	15,495	9,666	9,488
[d] Cost of Sales					
Mining costs		242,735	216,624	-	-
Mining waste costs deferred	14	(249,860)	(223,113)	-	-
Amortisation of mining waste costs deferred	14	174,847	135,989	-	-
Amortisation of other mine properties	14	26,857	29,358	-	-
Crushing costs		21,880	20,134	-	-
Transport costs		30,373	29,010	-	-
Port costs		16,018	13,249	-	-
Royalties		34,893	31,048	-	-
Depreciation		28,820	24,714	-	-
Net ore inventory movement		(33,066)	(32,378)	-	-
		293,497	244,635	-	-
[e] Administration Expenses include					
Depreciation		339	294	-	-
Share-based payments expense		3,131	5,599	-	-
Bad debts written off		8	-	-	-
Net loss on disposal of available-for-sale-financial-assets		-	3	-	-
Net realised loss on foreign exchange		98	-	-	-
Net unrealised loss on foreign exchange		9,557	-	-	-
[f] Cost of Sales and Administration expenses above include					
Salaries, wages expense and other employee benefits		37,123	29,312	-	-
Operating lease rental – minimum lease payments		15,885	25,988	-	-

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
3. INCOME TAX					
Major components of income tax expense for the years ended 30 June 2009 and 2008 are:					
Income Statement					
Current income tax					
Current income tax charge		-	-	-	-
Deferred income tax					
Relating to origination and reversal of temporary differences		19,091	50,513	(1,139)	(2,742)
Benefit from previously unrecognised tax loss used to reduce deferred tax expense / temporary differences		-	-	-	-
Income tax expense/(benefit) reported in income statement		19,091	50,513	(1,139)	(2,742)
Statement of Changes in Equity					
Current income tax					
Current income tax on exchange difference on loan			-		-
Deferred income tax					
Capital raising costs		(868)	(48)	(1,221)	(64)
Remeasurement of foreign exchange contracts		(7,933)	5,590	-	-
Interest rate swap contracts		(1,138)	352	(1,138)	352
Deferred income tax (benefit)/liability reported in equity		(9,939)	5,894	(2,359)	288
Reconciliation of income tax expense / (benefit)					
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2009 and 2008 is as follows:					
Accounting profit/(loss) before income tax		61,709	163,857	(4,200)	(8,488)
• At the statutory income tax rate of 30% (2008: 30%)		18,513	49,157	(1,260)	(2,546)
• Temporary differences not brought to account as a deferred tax asset		506	1	506	1
• Expenditure not allowed for income tax purposes		950	1,683	-	-
• Adjustments in respect of deferred income tax of previous years		-	233	-	(124)
• Other		(806)	(561)	(385)	(73)
• Temporary investment allowance		(72)	-	-	-
Income tax expense/(benefit)		19,091	50,513	(1,139)	(2,742)
Effective income tax rate		30.9%	30.8%	(27.1%)	(32.3%)
Income tax expense/(benefit) reported in income statement		19,091	50,513	(1,139)	(2,742)

Notes to the Consolidated Financial Report (continued)

Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Consolidated Entity have 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.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase / decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Mount Gibson Iron Limited. In this regard the Company has assumed the benefit of tax losses from controlled entities in the current year of $17,670,487 (2008: $14,492,208) as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED						
Accrued liabilities	(204)	(174)	-	-	(204)	(174)
Borrowing costs	(560)	(1,009)	-	-	(560)	(1,009)
Capital raising costs	(6,184)	(6,392)	-	-	(6,184)	(6,392)
Deferred income	-	-	28,055	40,863	28,055	40,863
Allowance for doubtful debts	(4,574)	-	-	-	(4,574)	-
Exploration expenditure	-	-	4,113	3,464	4,113	3,464
Foreign exchange contracts	(8,552)	(327)	809	8,387	(7,743)	8,060
Interest rate swaps	(899)	(103)	52	468	(847)	365
Interest receivable	-	-	623	268	623	268
Inventory	-	-	1,636	1,121	1,636	1,121
Lease liability	(3,205)	(4,284)	-	-	(3,205)	(4,284)
Mine properties	-	-	75,595	51,524	75,595	51,524
Prepaid expenditure	-	-	22	16	22	16
Property, plant and equipment	-	-	10,217	10,249	10,217	10,249
Provisions	(6,238)	(6,298)	-	-	(6,238)	(6,298)
Tax losses	(37,022)	(53,241)	-	-	(37,022)	(53,241)
Tax (assets) liabilities	(67,438)	(71,828)	121,122	116,360	53,684	44,532
Set off of tax	67,438	71,828	(67,438)	(71,828)	-	-
Net tax (assets) liabilities	**-**	**-**	**53,684**	**44,532**	**53,684**	**44,532**

Notes to the Consolidated Financial Report (continued)

	Balance 1 July 2007 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2008 $'000
Movement in temporary differences during the financial year ended 30 June 2008				
Accrued liabilities	(131)	(43)	-	(174)
Borrowing costs	(718)	(291)	-	(1,009)
Capital raising costs	(10,036)	3,692	(48)	(6,392)
Deferred income	7,825	33,038	-	40,863
Doubtful debts provision	(105)	105	-	-
Exploration expenditure	2,709	755	-	3,464
Foreign exchange contracts	2,061	409	5,590	8,060
Interest rate swaps	-	13	352	365
Interest receivable	427	(159)	-	268
Inventory	396	725	-	1,121
Lease liability	(999)	(3,285)	-	(4,284)
Mine properties	24,991	26,533	-	51,524
Prepaid expenditure	4	12	-	16
Property, plant and equipment	4,266	5,983	-	10,249
Provisions	(5,893)	(405)	-	(6,298)
Tax losses	(36,672)	(16,569)	-	(53,241)
	(11,875)	50,513	5,894	44,532

	Balance 1 July 2008 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2009 $'000
Movement in temporary differences during the financial year ended 30 June 2009				
Accrued liabilities	(174)	(30)	-	(204)
Borrowing costs	(1,009)	449	-	(560)
Capital raising costs	(6,392)	1,076	(868)	(6,184)
Deferred income	40,863	(12,808)	-	28,055
Doubtful debts provision	-	(4,574)	-	(4,574)
Exploration expenditure	3,464	649	-	4,113
Foreign exchange contracts	8,060	(7,870)	(7,933)	(7,743)
Interest rate swaps	365	(74)	(1,138)	(847)
Interest receivable	268	355	-	623
Inventory	1,121	515	-	1,636
Lease liability	(4,284)	1,079	-	(3,205)
Mine properties	51,524	24,071	-	75,595
Prepaid expenditure	16	6	-	22
Property, plant and equipment	10,249	(32)	-	10,217
Provisions	(6,298)	60	-	(6,238)
Tax losses	(53,241)	16,219	-	(37,022)
	44,532	19,091	(9,939)	53,684

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000
COMPANY						
Accrued liabilities	(44)	(45)	-	-	(44)	(45)
Borrowing costs	(273)	(510)	-	-	(273)	(510)
Capital raising costs	(1,490)	(364)	-	-	(1,490)	(364)
Doubtful debts provision	-	(43)	-	-	-	(43)
Interest rate swaps	(899)	(103)	52	468	(847)	365
Interest receivable	-	-	60	-	60	-
Tax losses	(37,073)	(53,243)	-	-	(37,073)	(53,243)
Tax (assets) liabilities	(39,779)	(54,308)	112	468	(39,667)	(53,840)
Set off of tax	112	468	(112)	(468)	-	-
Net tax (assets) liabilities	**(39,667)**	**(53,840)**	**-**	**-**	**(39,667)**	**(53,840)**

	Balance 1 July 2007	Recognised in Income	Recognised in Equity	Transfers Out (In)	Balance 30 June 2008
	$'000	$'000	$'000	$'000	$'000
Movement in temporary differences during the financial year ended 30 June 2008					
Accrued liabilities	(37)	(8)	-	-	(45)
Borrowing costs	(6)	(504)	-	-	(510)
Capital raising costs	(136)	(164)	(64)	-	(364)
Provisions	(43)	-	-	-	(43)
Interest rate swaps	-	13	352	-	365
Tax losses	(36,672)	(2,079)	-	(14,492)	(53,243)
	(36,894)	(2,742)	288	(14,492)	(53,840)

	Balance 1 July 2008	Recognised in Income	Recognised in Equity	Transfers Out (In)	Balance 30 June 2009
	$'000	$'000	$'000	$'000	$'000
Movement in temporary differences during the financial year ended 30 June 2009					
Accrued liabilities	(45)	1	-	-	(44)
Borrowing costs	(510)	237	-	-	(273)
Capital raising costs	(364)	95	(1,221)	-	(1,490)
Provisions	(43)	43	-	-	-
Interest rate swaps	365	(74)	(1,138)	-	(847)
Interest receivable	-	60	-	-	60
Tax losses	(53,243)	(1,501)	-	17,671	(37,073)
	(53,840)	(1,139)	(2,359)	17,671	(39,667)

	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Provision for write down of investments	965	624	965	624
Tax losses	311	311	311	311
	1,276	935	1,276	935

Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
4. CASH AND CASH EQUIVALENTS					
Cash at bank and in hand		27,966	33,930	4,538	4,562
Short-term deposits		194,207	14,728	-	-
		222,173	**48,658**	**4,538**	**4,562**

Cash at bank earns interest at floating rates based on 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.

[a] Reconciliation of cash

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

	CONSOLIDATED 2009	CONSOLIDATED 2008	COMPANY 2009	COMPANY 2008
Cash at bank and in hand	27,966	33,930	4,538	4,562
Short-term deposits	194,207	14,728	-	-
	222,173	48,658	4,538	4,562

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

	CONSOLIDATED 2009	CONSOLIDATED 2008	COMPANY 2009	COMPANY 2008
Net profit/(loss) after tax	42,618	113,344	(3,061)	(5,746)
Adjustments for:				
Depreciation of non-current assets	29,159	25,008	-	-
Amortisation of deferred waste	174,847	135,989		-
Amortisation of other mine properties	26,857	29,358		-
Net (profit)/loss on disposal of property, plant and equipment	(45)	(54)		-
Net exchange differences	14,625	(502)	1,215	(287)
Interest received	(6,287)	(2,500)	(363)	(247)
Exploration expenses written off	24	38		-
Share based payments	3,131	5,599		-
Intra-group interest income	-	-	(10,856)	(3,465)
Unwinding of rehabilitation provision	1,224	-		-
Impairment of investments	1,685	-	1,685	-
Allowance for doubtful debts	15,247	-	-	-
Borrowing costs	2,488	2,481	2,364	2,345
Net loss on disposal of available-for-sale financial assets	-	3		3
Capitalised expenses	12,991	(5,319)	(971)	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	52,720	(74,468)	7	27
(Increase) in inventory	(40,312)	(36,867)	-	-

Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
(Increase)/decrease in prepayments and deposits		(82)	(837)	1	1
(Increase) in capitalised deferred waste		(249,860)	(223,113)	-	-
Increase in creditors and accruals		(1,229)	25,883	(181)	1,002
Increase/(decrease) in GST paid		(75)	459	-	190
Increase/(decrease) in deferred income tax liabilities		19,091	50,513	(1,139)	(2,742)
Increase in employee benefits		671	738	-	-
Net Cash Flow (used in)/from Operating Activities		**99,488**	**45,753**	**(11,299)**	**(8,919)**

[c] Non-cash financing activities

During the financial year, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of $14,508,222 (2008: $6,860,022) by means of finance leases and hire purchase agreements. During the financial year, the Consolidated Entity disposed of property, plant and equipment with an aggregate fair value of $36,500 (2008: $1,320,021) that were financed by means of finance leases.

		CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
5. TRADE AND OTHER RECEIVABLES					
Current					
Trade debtors	[a][i]	26,727	78,493	-	-
Allowance for impairment	[b]	(15,247)	-	-	-
		11,480	78,493	-	-
Sundry debtors	[a][ii]	2,298	1,522	201	-
Convertible note receivable	[a][iv]	1,000	-	1,000	-
Other receivables		2,446	3,421	29	38
		17,224	**83,436**	**1,230**	**38**
Non-Current					
Other receivables – controlled entities	[a][iii]	-	-	274,227	116,092
Allowance for impairment		-	-	-	(145)
Convertible note receivable	[a][iv]	-	1,000	-	1,000
		-	**1,000**	**274,227**	**116,947**

[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 note 1(h).

[ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

[iii] Except for amounts payable by Mount Gibson Mining Limited of $236,426,084 on which interest is charged at 7% pa, receivables from controlled entities are non-interest bearing with no fixed repayment date and are repayable on demand.

[iv] Convertible note held in Resources Mining Corporation Limited, convertible into 31,250,000 ordinary shares. The convertible note is unsecured, interest free and due on 19 December 2009.

[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 2009, trade debtors of $15,247,130 (2008: $ nil) in the Consolidated Entity and $nil (2008: $nil) in the Company were impaired. This impaired amount is owed by Sinom (Hong Kong) Limited for iron ore sales in the period 1 April 2008 to 30 June 2008. The amount owing relates to the Hamersley benchmark price increase adjustment from 1 April 2008 that was announced on 24 June 2008 after the sales had already occurred. The Consolidated Entity has commenced legal proceedings in Hong Kong and arbitration proceedings in Australia to recover the debt owing by Sinom (Hong Kong) Limited.

At 30 June 2009, trade debtors of $1,550,137 (2008: $348,111) in the Consolidated Entity and $nil (2008: $10,000) in the Company were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and other indicators of impairment.

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

	Notes	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Movements in the allowance for impairment were as follows:					
Balance at the beginning of the year		-	350	-	-
Charge for the year		15,247	-	-	-
Amounts written off		-	(350)	-	-
Balance at the end of the year		15,247	-	-	-
The ageing of debtors past due but not impaired is as follows:					
Less than 30 days overdue		-	-	-	-
Between 30 and 60 days overdue		402	280	-	-
Between 60 and 90 days overdue		592	23	-	-
Greater than 90 days overdue		556	45	-	-
		1,550	348	-	-

6. INVENTORIES

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Consumables – at cost		16,719	9,473	-	-
Ore – at cost		95,041	61,975	-	-
		111,760	**71,448**	**-**	**-**

7. DERIVATIVE FINANCIAL ASSETS

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Current					
Foreign currency forward contracts and options	32[b][i]	1,902	23,602	-	-
Interest rate swap contracts	32[c][i]	175	1,559	175	1,559
		2,077	**25,161**	**175**	**1,559**
Non-Current					
Foreign currency forward contracts and options	32[b][i]	147	-	-	-
		147	**-**	**-**	**-**

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
8. OTHER ASSETS					
Current					
Cash backed performance bonds		15,107	-	15,107	-
		15,107	**-**	**15,107**	**-**

On satisfaction of the conditions precedent to the Amended Facility Agreement referred to in note 16(c), the cash backed performance bonds will be reduced to $nil and the full amount in cash will be returned to the Consolidated Entity.

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
9. AVAILABLE-FOR-SALE FINANCIAL ASSETS					
Shares – listed at fair value		-	1,113	-	1,113
		-	**1,113**	**-**	**1,113**

Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

10. OTHER FINANCIAL ASSETS

Non-Current

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Investments in controlled entities – at cost	**-**	**-**	**347,640**	**344,509**

11. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of Equity Interest Held by the Consolidated Entity 2009 %	2008 %	Investment 2009 $'000	2008 $'000
Mount Gibson Mining Limited	Australia	100	100	29,318	26,187
WHTK Pty Ltd	Australia	100	100	-	-
Geraldton Bulk Handling Pty Ltd	Australia	100	100	-	-
Aztec Resources Limited	Australia	100	100	318,322	318,322
• Koolan Iron Ore Pty Ltd	Australia	100	100	-	-
• Koolan Shipping Pty Ltd	Australia	100	100	-	-
• Brockman Minerals Pty Ltd	Australia	100	100	-	-
				347,640	**344,509**

Notes to the Consolidated Financial Report (continued)

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 their 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 2008. 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 as follows:

Consolidated Income Statement of the Closed Group

	CONSOLIDATED	
	2009	**2008**
	$'000	**$'000**
CONTINUING OPERATIONS		
Sale of goods	425,443	432,674
Other revenue	6,273	2,476
TOTAL REVENUE	431,716	435,150
Cost of sales	(284,422)	(239,786)
GROSS PROFIT	147,294	195,364
Other income	45	3,880
Administration expenses	(42,584)	(15,013)
Doubtful debts provision	(15,247)	-
Impairment of available-for-sale financial assets	(1,685)	-
Exploration expenses	(30)	(36)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS	87,793	184,195
Finance costs	(16,926)	(15,495)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX	70,867	168,700
Income tax (expense)	(21,838)	(51,966)
NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY	49,029	116,734

Notes to the Consolidated Financial Report (continued)

Consolidated Balance Sheet of the Closed Group

	CONSOLIDATED	
	2009	**2008**
	$'000	**$'000**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	220,802	47,679
Trade and other receivables	16,417	82,662
Inventories	111,760	71,448
Prepayments	2,300	1,569
Derivative financial assets	2,077	25,161
Other assets	15,107	-
TOTAL CURRENT ASSETS	**368,463**	**228,519**
NON-CURRENT ASSETS		
Available for sale financial assets	-	1,113
Other receivables	13,747	11,699
Derivative financial assets	147	-
Property, plant and equipment	180,552	184,710
Deferred acquisition, exploration, evaluation and development costs	53,784	25,919
Mine properties	503,748	447,141
TOTAL NON-CURRENT ASSETS	**751,978**	**670,582**
TOTAL ASSETS	**1,120,441**	**899,101**
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	69,199	71,520
Interest-bearing loans and borrowings	112,508	12,415
Derivative financial liabilities	14,356	342
Provisions	2,392	1,827
TOTAL CURRENT LIABILITIES	**198,455**	**86,104**
NON-CURRENT LIABILITIES		
Provisions	18,300	19,112
Interest-bearing loans and borrowings	49,080	145,858
Derivative financial liabilities	6,942	-
Deferred income tax liabilities	53,527	43,939
TOTAL NON-CURRENT LIABILITIES	**127,849**	**208,909**
TOTAL LIABILITIES	**326,304**	**295,013**
NET ASSETS	**794,137**	**604,088**
EQUITY		
Issued capital	556,032	397,197
Retained earnings	227,479	178,450
Reserves	10,626	28,441
TOTAL EQUITY	**794,137**	**604,088**

Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
12. PROPERTY, PLANT AND EQUIPMENT					
Freehold–land - at cost		5	5	5	5
Plant and equipment – at cost		86,968	82,670	-	-
Accumulated depreciation		(21,438)	(12,553)	-	-
		65,530	70,117	-	-
Plant and equipment under lease – at cost		97,497	83,545	-	-
Accumulated depreciation		(31,595)	(17,078)	-	-
		65,902	66,467	-	-
Buildings – at cost		55,783	48,923	-	-
Accumulated depreciation		(12,629)	(7,341)	-	-
		43,154	41,582	-	-
Buildings under lease – at cost		522	522	-	-
Accumulated depreciation		(369)	(340)	-	-
		153	182	-	-
Capital works in progress – at cost		9,761	10,144	-	-
Total property, plant and equipment					
At cost		250,536	225,809	5	5
Total accumulated depreciation		(66,031)	(37,312)	-	-
		184,505	**188,497**	**5**	**5**
[a] Assets pledged as security					
The value of assets pledged as security are:					
Land		5	5	-	-
Plant and equipment		65,530	70,117	-	-
Plant and equipment under lease		65,902	66,467	-	-
Buildings		43,154	41,582	-	-
Buildings under lease		153	182	-	-
Capital work in progress		9,761	10,144	-	-
		184,505	188,497	-	-

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

[b] Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Plant and equipment					
Carrying amount at the beginning of the year		70,117	87,934	-	-
Additions		3,377	7,775	-	-
Transfers		921	(16,603)	-	-
Disposals		-	(87)	-	-
Depreciation expense		(8,885)	(8,902)	-	-
Carrying amount at the end of the year		65,530	70,117	-	-
Plant and equipment under lease					
Carrying amount at the beginning of the year		66,467	70,836	-	-
Additions		14,509	6,860	-	-
Disposals		(37)	(436)	-	-
Depreciation expense		(15,037)	(10,793)	-	-
Carrying amount at the end of the year		65,902	66,467	-	-
Buildings					
Carrying amount at the beginning of the year		41,582	28,192	-	-
Additions		1,644	2,151	-	-
Transfers		5,216	16,603	-	-
Disposals		-	(83)	-	-
Depreciation expense		(5,288)	(5,281)	-	-
Carrying amount at the end of the year		43,154	41,582	-	-
Buildings under lease					
Carrying amount at the beginning of the year		182	230	-	-
Depreciation expense		(29)	(48)	-	-
Carrying amount at the end of the year		153	182	-	-
Capital works in progress					
Carrying amount at the beginning of the year		10,144	571	-	-
Additions		5,754	9,573	-	-
Transfers		(6,137)	-	-	-
Carrying amount at the end of the year		9,761	10,144	-	-

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
13. DEFERRED ACQUISITION, EXPLORATION, EVALUATION AND DEVELOPMENT COSTS					
Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:					
Extension Hill Hematite		48,390	22,692	-	-
Koolan Island		5,394	3,227	-	-
		53,784	**25,919**	**-**	**-**
Reconciliation					
Carrying amount at beginning of the year		25,919	9,027	-	-
Additions		27,889	16,930	-	-
Exploration expenditure written off		(24)	(38)	-	-
Carrying amount at the end of the year		53,784	25,919	-	-

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not recognised pending commencement of production.

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
14. MINE PROPERTIES					
Mine development expenditure		969,575	711,267	-	-
Accumulated amortisation		(465,736)	(264,032)	-	-
		503,839	**447,235**	**-**	**-**
Reconciliation					
Carrying amount at beginning of the year		447,235	370,684	-	-
Additions		8,448	18,785	-	-
Deferred waste capitalised during the year	2[d]	249,860	223,113	-	-
Amortisation expensed – deferred waste	2[d]	(174,847)	(135,989)	-	-
Amortisation expensed – other	2[d]	(26,857)	(29,358)	-	-
Carrying amount at the end of the year		503,839	447,235	-	-
15. TRADE AND OTHER PAYABLES					
Current					
Trade creditors	[a]	25,392	25,709	303	418
Accruals and other payables	[a]	49,711	47,697	6,120	1,696
Other payables – controlled entities	[b]	-	-	18,519	18,861
		75,103	**73,406**	**24,942**	**20,975**

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

[b] Current payables to controlled entities are non-interest bearing with no fixed repayment date. The 2008 comparative has been reclassified from non-current liabilities to reflect the contractual terms of the arrangement.

Notes to the Consolidated Financial Report (continued)

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
16. INTEREST-BEARING LOANS AND BORROWINGS					
Current					
Lease liability	[a]	3,972	3,961	-	-
Hire purchase facility	[b]	10,357	8,454	-	-
Corporate Debt	[c]	105,000	-	105,000	-
Capitalised corporate debt facility costs		(6,821)	-	(6,821)	-
		112,508	**12,415**	**98,179**	**-**
Non-Current					
Lease liability	[a]	6,711	10,320	-	-
Hire purchase facility	[b]	42,369	33,931	-	-
Corporate Debt	[c]	-	105,000	-	105,000
Capitalised corporate debt facility costs		-	(3,393)	-	(3,393)
		49,080	**145,858**	**-**	**101,607**
Financing facilities available					
At reporting date, the following financing facilities had been negotiated and were available:					
Total facilities:					
• Finance leases	[a]	10,683	14,281	-	-
• Hire purchase facility	[b]	52,726	42,385	-	-
• Contingent Instrument facility	[c]	25,000	25,000	25,000	25,000
• Corporate Debt	[c]	175,000	175,000	175,000	175,000
		263,409	**256,666**	**200,000**	**200,000**
Facilities used at reporting date:					
• Finance leases		10,683	14,281	-	-
• Hire purchase facility		52,726	42,385	-	-
• Contingent Instrument facility		16,704	13,816	16,704	13,184
• Corporate Debt		105,000	105,000	105,000	105,000
		185,113	**175,482**	**121,704**	**118,184**
Facilities unused at reporting date:					
• Finance leases		-	-	-	-
• Hire purchase facility		-	-	-	-
• Contingent Instrument facility		8,296	11,184	8,296	11,816
• Corporate Debt		70,000	70,000	70,000	70,000
		78,296	**81,184**	**78,296**	**81,816**

Terms and conditions relating to the above financial facilities:

[a] **Finance Lease Facility**

Finance leases are repayable monthly with final instalments due in July 2012. Interest is charged at an average rate of 8.82%. Secured by first mortgage over the leased assets.

[b] **Hire Purchase Facility**

Hire purchase arrangements have been entered into by Koolan Iron Ore Pty Ltd via a Master Lease agreement with Komatsu Corporate Finance Pty Limited and National Australia Bank Limited. Hire purchase amounts are repayable monthly with final instalments due in August 2013. Interest is charged at an average rate of 7.61%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US$ for Komatsu and A$ for NAB.

[c] **Corporate Debt and Contingent Instrument Facility**

On 28 August 2007 the Company entered into a Facility Agreement with a Banking Syndicate for a $200,000,000 debt facility to fund the refinance of the existing finance facilities and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments.

At 30 June 2008 the $200,000,000 facility consisted of:

- Senior debt facility of $175,000,000 comprising 2 tranches:
  1. Tranche 1 of $125,000,000;
  2. Extension Hill tranche of $50,000,000 which was only drawable against the Extension Hill DSO project after certain conditions precedent have been satisfied including EPA approval and Company Board approval for the project to proceed. These conditions precedent to drawdown were satisfied on 23 September 2008; and
- Contingent Instrument facility of $25,000,000 (including guarantees, performance bonds).

On 30 June 2009 the Company signed an Amended Facility Agreement to amend the Senior debt facility and Contingent Instrument facility as follows:

- Senior debt facility of $105,000,000 with the following repayment schedule:
  - $25,000,000 on 30 September 2010;
  - $25,000,000 on 30 December 2010;
  - $25,000,000 on 31 March 2011;
  - $30,000,000 on 30 June 2011; and
- Contingent Instrument facility of $65,000,000 (including guarantees, performance bonds) comprising 2 tranches:
  1. Tranche 1 for Koolan Island and Tallering Peak of $20,000,000;
  2. Tranche 2 for Extension Hill of $45,000,000.

The final condition precedent of the Amended Facility Agreement is expected to be satisfied in August 2009. As all conditions precedent had not been satisfied under the Amended Facility Agreement at 30 June 2009, the Corporate Debt facility of $105,000,000 has been recorded as a current liability.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, 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 at Extension Hill.

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
17. DERIVATIVE FINANCIAL LIABILITIES					
Current					
Foreign currency forward contracts and options	32[b][i]	11,359	-	-	-
Interest rate swap contracts	32[c][i]	2,997	342	2,997	342
		14,356	**342**	**2,997**	**342**
Non-Current					
Foreign currency forward contracts and options	32[b][i]	6,942	-	-	-
		6,942	**-**	**-**	**-**
18. PROVISIONS					
Current					
Employee benefits		2,389	1,780	-	-
Road resealing		100	100	-	-
		2,489	**1,880**	**-**	**-**
Non-Current					
Employee benefits		120	59	-	-
Decommissioning rehabilitation		18,183	19,053	-	-
		18,303	**19,112**	**-**	**-**
Movement in provisions:					
Road Resealing					
Carrying amount at beginning of the year		100	100	-	-
Provision for period		200	200	-	-
Amounts utilised during the period		(200)	(200)	-	-
Carrying amount at end of the year		100	100	-	-
Decommissioning Rehabilitation					
Carrying amount at beginning of the year		19,053	18,442	-	-
Unwinding of discount on rehabilitation provision		1,224	-	-	-
Revaluation of rehabilitation provision		(2,094)	611	-	-
Carrying amount at end of the year		18,183	19,053	-	-

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
19. ISSUED CAPITAL					
[a] Ordinary shares					
Issued and fully paid		**556,032**	**397,197**	**556,032**	**397,197**

	Notes	2009 Number of Shares	2009 $'000	2008 Number of Shares	2008 $'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		803,840,821	397,197	787,786,821	386,766
Placement	[i]	110,000,000	66,000	-	-
Rights issue	[ii]	160,872,790	96,524	-	-
Exercise of options		515,000	442	16,054,000	10,367
Capital raising expenses		-	(5,352)	-	-
Deferred income tax on capital raising cost		-	1,221	-	64
End of the financial year		**1,075,228,611**	**556,032**	**803,840,821**	**397,197**

[i] 31 December 2008 - Placement to Shougang Concord of 110,000,000 ordinary shares at A$0.60 per share to raise A$66,000,000 (before expenses)

[ii] 12 January 2009 - 160,872,790 fully paid ordinary shares issued pursuant to a 1 for 5 fully underwritten renounceable rights issue at A$0.60 per share to raise gross proceeds of A$96,523,674 (before expenses)

[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 Corporation legislation in place abolished the concept of authorised capital and par values. Accordingly, the Company does not have authorised capital nor par value in respect of its issued shares.

[d] Share options

As at balance date the following Options over unissued Shares were on issue:

Exercise Price	Vesting date / Exercise Period	2009 Number	2008 Number
55 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2008	-	100,000
78 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	250,000	475,000
89 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	1,621,000	2,646,000
299 cents	Vested 31 Dec 2008 – exercise on or before 31 Dec 2009	6,900,000	-
90 cents	Vested 1 July 2008 – exercise on or before 30 June 2010	2,000,000	2,000,000
90 cents	Vested on 24 Oct 2008 – exercise on or before 23 Oct 2010	3,000,000	3,000,000
110 cents	Vesting on 24 Oct 2010 – exercise on or before 23 Oct 2012	2,000,000	2,000,000
		15,771,000	**10,221,000**

In addition, as at 30 June 2009, there were nil (2008: 8,475,000) options granted but not issued under the Employee Share Scheme.

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

[e] Performance rights

The Company has established the Mount Gibson Iron Limited Performance Rights Plan. The rights were granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("**TSR**") measured against the TSR of a comparator group of companies over the same period.

As at 30 June 2009 there were 888,759 performance rights on issue (2008: 282,942).

		CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
20. RESERVES					
Option premium reserve	[a]	17,641	14,510	17,641	14,510
Net unrealised gains/(losses) reserve	[b]	(3,823)	16,772	(1,835)	249
Other reserves	[c]	(3,192)	(3,192)	-	-
		10,626	**28,090**	**15,806**	**14,759**

[a] Option premium reserve

The option premium 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	14,510	8,911	14,510	8,911
Share based payments	3,131	5,599	3,131	5,599
Balance at the end of the year	17,641	14,510	17,641	14,510

[b] Net unrealised gains/(losses) reserve

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

Balance at the beginning of the year	16,772	3,963	249	283
Net unrealised gains/(losses) on available-for-sale financial assets	-	(856)	-	(856)
Impairment of available-for-sale financial assets	573	-	573	-
Net gains/(losses) on cash flow hedges	(30,239)	19,607	(3,795)	1,174
Deferred income tax on cash flow hedges	9,071	(5,942)	1,138	(352)
Balance at the end of the year	(3,823)	16,772	(1,835)	249

[c] Other reserves

Consolidation reserve	(3,192)	(3,192)	-	-
	(3,192)	(3,192)	-	-

21. RETAINED EARNINGS / (ACCUMULATED LOSSES)

Balance at the beginning of the year	171,205	57,861	(12,306)	(6,560)
Net profit/(loss) attributable to members of the Company	42,618	113,344	(3,061)	(5,746)
Balance at the end of the year	**213,823**	**171,205**	**(15,367)**	**(12,306)**

		CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'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		995	625	-	-
• Later than one year but not later than five years		2,327	2,237	-	-
		3,322	**2,862**	**-**	**-**
[b] Operating Lease Commitments	[ii]				
Minimum lease payments					
• Not later than one year		6,188	7,709	-	-
• Later than one year but not later than five years		1,599	4,885	-	-
		7,787	**12,594**	**-**	**-**
[c] Finance Lease and Hire Purchase Commitments	[iii]				
Minimum lease payments					
• Not later than one year		18,606	16,157	-	-
• Later than one year but not later than five years		54,137	50,277	-	-
• Later than five years		-	-	-	-
Total minimum lease payments		72,743	66,434	-	-
Future finance charges		(9,334)	(9,768)	-	-
		63,409	**56,666**	**-**	**-**
Total lease liability accrued for:					
Current					
Finance leases and hire purchase facility		14,329	12,415	-	-
Non-Current					
Finance leases and hire purchase facility		49,080	44,251	-	-
		63,409	**56,666**	**-**	**-**
[d] Property, plant and equipment commitments	[iv]				
Commitments contracted for at balance date but not recognised as liabilities					
• Not later than one year		30,649	66,820	-	-
• Later than one year but not later than five years		-	-	-	-
		30,649	**66,820**	**-**	**-**

[i] In order to maintain current rights to explore and mine the tenements at Tallering Peak, Koolan Island, and Extension Hill the Consolidated Entity is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.

[ii] Operating leases:

- operating lease for office space with an initial lease term of 5 years; and
- operating lease for machinery has an average term of 1.4 years and expires in November 2010.

Notes to the Consolidated Financial Report (continued)

[iii] Finance leases and hire purchases have an average term of 4.5 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rates implicit in the finance leases and hire purchases are 8.82% and 7.61% respectively. Secured lease liabilities are secured by a charge over the leased assets.

[iv] The Consolidated Entity had contractual commitments to purchase property, plant and equipment principally relating to:

- construction and development of the Extension Hill project of $11,398,752; and
- Koolan Island main pit seawall, dewatering and footwall rehabilitation of $18,349,910.

		CONSOLIDATED		COMPANY	
		2009	**2008**	**2009**	**2008**
		$'000	**$'000**	**$'000**	**$'000**
23. SHARE-BASED PAYMENT PLANS					
(a) Recognised share-based payment expenses					
Expense arising from equity-settled share-based payment transactions	2[e]	3,131	5,599	-	-

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2009 and 2008.

(b) Employee share scheme

An employee share 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.

Information with respect to the number of options granted and issued under the employee share scheme is as follows:

	2009		2008	
	No. of Options	**Weighted average exercise price (cents)**	**No. of Options**	**Weighted average exercise price (cents)**
Balance at beginning of year	10,221,000	92.8	17,000,000	70.3
- granted and issued	7,300,000	299.0	9,275,000	85.1
- forfeited	(1,235,000)	153.6	-	-
- exercised	(515,000)	85.8	(16,054,000)	64.6
Balance at year end	**15,771,000**	**183.7**	**10,221,000**	**92.8**
Exercisable at year end	**13,771,000**	**194.4**	**3,221,000**	**87.3**

In addition, as at 30 June 2009, there were nil (2008: 8,475,000) options granted but not issued under the Employee Share Scheme. The remaining contractual life for the options on issue as at 30 June 2009 is between 1 and 4 years (2008: 1 and 5 years). The range for exercise prices for options on issue at the end of the year was $0.78-$2.99 (2008: $0.55-$2.99).

(c) Performance Rights Plan

The Company has established the Mount Gibson Iron Limited Performance Rights Plan. The rights were granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("**TSR**") measured against the TSR of a comparator group of companies over the same period.

Notes to the Consolidated Financial Report (continued)

Information with respect to the number of Performance Rights granted and issued under is as follows:

	2009 No. of Performance Rights	2008 No. of Performance Rights
Balance at beginning of year	282,942	-
- granted and issued	605,817	282,942
- forfeited	-	-
- vested	-	-
Balance at year end	**888,759**	**282,942**
Exercisable at year end	**-**	**-**

24. EARNINGS PER SHARE

Basic earnings per share amount are 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 are 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:

	CONSOLIDATED	
	2009 $'000	2008 $'000
Profits used in calculating basic and diluted earnings per share	42,618	113,344

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	935,386,705	795,508,824
Effect of dilution		
- Share options	390,022	7,182,397
Weighted average number of ordinary shares used in calculating diluted earnings per share	935,776,727	802,691,221

Conversions, calls, subscriptions or issues after 30 June 2009

Since the end of the financial year no options have been converted to ordinary shares. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

25. DIVIDENDS PAID AND PROPOSED

No amounts have been paid, declared or recommended by the Company by way of dividend since 1 July 2008.

26. CONTINGENT LIABILITIES

1. The Corporate Debt banks have provided the Consolidated Entity with performance bonds totalling $31,841,070 (2008: $13,815,907), of which $15,107,304 (2008: $nil) is cash backed (Note 8). The performance bonds relate to performance of environmental obligations and rail upgrades.
2. Legal proceedings have been initiated against Mount Gibson Mining Limited ("**MGM**") by Austman Pty Ltd ("**Austman**") in relation to a contract for the design and construction of the crusher at Extension Hill. Austman is seeking orders that MGM pay it the sum of $6,896,545 on a quantum meruit basis or alternatively as damages for breach of contract, plus interest accruing from 2 September 2008 until judgment plus costs. MGM denies the claim and will vigorously defend it. MGM is also counterclaiming damages from Austman for breach of contract. The precise quantum of MGM's claim has not yet been established but is expected to exceed $1,000,000.

Notes to the Consolidated Financial Report (continued)

27. KEY MANAGEMENT PERSONNEL DISCLOSURES

[a] Details of Key Management Personnel

[i] Directors

N Hamilton	Chairman
L Tonkin	Managing Director
C Readhead	Non-Executive Director
I Macliver	Non-Executive Director
A Jones	Non-Executive Director
C Zhong	Non-Executive Director (appointed 1 December 2008)
C Zhouping	Non-Executive Director (appointed 19 January 2009)
R Willcocks	Alternate Director to C Zhong (appointed 22 December 2008)
A Rule	Chief Financial Officer and Alternate Director to Mr Tonkin

[ii] Executives

D Quinlivan	Chief Operating Officer
D Berg	Company Secretary – from 21 August 2008
R Mencel	General Manager – Tallering Peak
R Richardson	General Manager – Koolan Island from 1 October 2008
R Jordinson	General Manager – Koolan Island until 30 September 2008

[b] Compensation of Specified Key Management Personnel

	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Short-term	3,687,306	3,582,086	607,686	476,298
Post employment	189,252	143,521	35,917	29,602
Share-based payment	925,680	1,182,679	-	-
	4,802,238	4,908,286	643,603	505,900

Notes to the Consolidated Financial Report (continued)

[c] Option holdings of Key Management Personnel

	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period	Vested at 30 June 2009		
30 June 2009	**1 July 2008**				**30 June 2009**	**Total**	**Not Exercisable**	**Exercisable**
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	3,000,000	-	3,000,000
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
C Zhong	-	-	-	-	-	-	-	-
C Zhouping	-	-	-	-	-	-	-	-
R Willcocks	-	-	-	-	-	-	-	-
A Rule	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
D Berg	-	-	-	-	-	-	-	-
R Mencel	350,000	-	-	-	350,000	350,000	-	350,000
R Richardson	-	-	-	-	-	-	-	-
R Jordinson	100,000	-	-	-	100,000	100,000	-	100,000
Total	7,450,000	-	-	-	7,450,000	5,450,000	-	5,450,000

	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period	Vested at 30 June 2008		
30 June 2008	**1 July 2007**				**30 June 2008**	**Total**	**Not Exercisable**	**Exercisable**
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
P Bilbe [i]	-	-	-	-	-	-	-	-
M Horn [ii]	-	-	-	-	-	-	-	-
A Rule	2,000,000	-	-	-	2,000,000	-	-	-
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
R Mencel	250,000	100,000	-	-	350,000	250,000	-	250,000
R Jordinson	-	100,000	-	-	100,000	-	-	-
Total	7,250,000	200,000	-	-	7,450,000	250,000	-	250,000

[i] Mr Bilbe resigned as a director on 21 November 2007

[ii] Mr Horn resigned as a director on 1 May 2008

Notes to the Consolidated Financial Report (continued)

[d] Shareholding of Key Management Personnel

30 June 2009	Balance 1 July 2008 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2009 Ord
Directors					
N Hamilton	185,000	-	-	-	185,000
L Tonkin	-	-	-	-	-
C Readhead	567,500	-	-	-	567,500
I Macliver	1,000,000	-	-	-	1,000,000
A Jones	100,000	-	-	-	100,000
C Zhong	-	-	-	-	-
C Zhouping	-	-	-	-	-
R Willcocks	-	-	-	50,000	50,000
A Rule	50,000	-	-	-	50,000
Executives					
D Quinlivan	-	-	-	-	-
D Berg	-	-	-	-	-
R Mencel	-	-	-	-	-
R Richardson	-	-	-	-	-
R Jordinson	26,000	-	-	(26,000)	-
Total	1,928,500	-	-	24,000	1,952,500

30 June 2008	Balance 1 July 2007 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2008 Ord
Directors					
N Hamilton	185,000	-	-	-	185,000
L Tonkin	-	-	-	-	-
C Readhead	1,067,500	-	-	(500,000)	567,500
I Macliver	1,500,000	-	-	(500,000)	1,000,000
A Jones	100,000	-	-	-	100,000
P Bilbe	52,033	-	-	(52,033)	-
M Horn	-	-	-	-	-
A Rule	50,000	-	-	-	50,000
Executives					
D Quinlivan	-	-	-	-	-
R Mencel	-	-	-	-	-
R Jordinson	-	-	-	26,000	26,000
Total	2,954,533	-	-	(1,026,033)	1,928,500

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Notes to the Consolidated Financial Report (continued)

[e] Performance Rights holding by Key Management Personnel

30 June 2009	Balance 1 July 2008	Granted as Remuneration	Vested during year	Balance 30 June 2009
Directors				
N Hamilton	-	-	-	-
L Tonkin	161,681	305,573	-	467,254
C Readhead	-	-	-	-
I Macliver	-	-	-	-
A Jones	-	-	-	-
C Zhong	-	-	-	-
C Zhouping	-	-	-	-
R Willcocks	-	-	-	-
A Rule	121,261	218,131	-	339,392
Executives			-	
D Quinlivan	-	-	-	-
D Berg	-	82,113	-	82,113
R Mencel	-	-	-	-
R Richardson	-	-	-	-
R Jordinson	-	-	-	-
Total	282,942	605,817	-	888,759

30 June 2008	Balance 1 July 2007	Granted as Remuneration	Vested during year	Balance 30 June 2008
Directors				
N Hamilton	-	-	-	-
L Tonkin	-	161,681	-	161,681
C Readhead	-	-	-	-
I Macliver	-	-	-	-
A Jones	-	-	-	-
P Bilbe	-	-	-	-
M Horn	-	-	-	-
A Rule	-	121,261	-	121,261
Executives				
D Quinlivan	-	-	-	-
R Mencel	-	-	-	-
R Jordinson	-	-	-	-
Total	-	282,942	-	282,942

[f] Loans to Specified Key Management Personnel

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

Notes to the Consolidated Financial Report (continued)

[g] Other Transactions and Balances with Key Management Personnel

Services

Allion Legal (formerly called Pullinger Readhead), of which Mr Readhead is a partner, provided legal services to the Company and Consolidated Entity. The fees, paid under normal commercial terms and conditions, were $nil (2008: $6,043) and $nil (2008: $6,043) respectively.

Amounts recognised at the reporting date in relation to other transactions:

	Consolidated 2009 $'000	Consolidated 2008 $'000
Assets and Liabilities		
Current Liabilities		
Trade Creditors	-	-
Total Liabilities	-	-
Revenues and Expenses		
Corporate expenses	-	6
Total Expenses	-	6

28. RELATED PARTY DISCLOSURE

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Wholly-owned group transactions

At 30 June 2009 $274,227,385 (2008: $116,093,881) of loans were owed by wholly owned subsidiaries to the Company. Interest of $10,856,141 (2008: $3,465,181) was charged on the loan to Mount Gibson Mining Limited at 7% pa during the year. All other loans are interest free, have no fixed repayment date and are repayable on demand. During the year, the following transactions occurred:

- repayment of the Koolan project finance facility of $nil (2008:$87,094,764) funded by the Company by way of drawdown of the Corporate Debt facility;
- transfers of deferred tax amounts from the Company to each of the wholly owned subsidiaries as a consequence of the tax consolidation group of $17,326,743 (2008: $14,425,341);
- share based payment expense incurred by the Company for options issued by the Company to employees that are employed by wholly owned subsidiaries of $3,130,817 (2008: $5,598,360);
- net transfers of $126,819,803 by the Company to subsidiaries for working capital purposes.

At 30 June 2009 $18,519,351 (2008: $18,861,121) of loans were owed by the Company to wholly owned subsidiaries. They are interest free, have no fixed repayment date and are repayable on demand.

Director-related entity transactions

Sales

On 26 November 2008 the Consolidated Entity entered into the following agreements, which were subsequently approved by the Company's shareholders at an extraordinary general meeting held on 30 December 2008, whereby:

- During November and December, 2008 APAC and Shougang Concord would purchase all of the Consolidated Entity's available production at US$40 per WMT;
- Between 1 January and 30 June 2009 Shougang Concord would purchase all of the Consolidated Entity's available production at US$56 per WMT; and
- From 1 July 2009 onwards APAC and Shougang Concord would purchase all of the Consolidated Entity's available production at Hamersley benchmark price less 10%.

Mr Cao and Mr Zhouping are directors of Shougang Concord and Mr Cao and Mr Jones are directors of APAC.

Pursuant to these agreements, during the financial year, the Consolidated Entity:

- Sold 184,167 WMT of iron ore to APAC; and
- Sold 2,285,844 WMT of iron ore to Shougang Concord.

Notes to the Consolidated Financial Report (continued)

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

	Consolidated 2009 $'000	Consolidated 2008 $'000
Assets and Liabilities		
Current Assets		
Trade receivables - APAC	-	-
Trade receivables - Shougang Concord	9,425	-
Total trade receivables	9,425	-
Total Assets	**9,425**	**-**
Revenues and Expenses		
Sale of goods - APAC	10,899	-
Sale of goods - Shougang Concord	179,364	-
Total Sale of Goods	**190,263**	**-**

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

	CONSOLIDATED 2009 $	CONSOLIDATED 2008 $	COMPANY 2009 $	COMPANY 2008 $
29. AUDITORS' REMUNERATION				
Amounts received or due and receivable by Ernst & Young for:				
▪ An audit or review of the financial report of the entity and any other entity in the consolidated entity	228,150	186,800	228,150	186,800
▪ Other services in relation to the entity and any other entity in the consolidated entity	5,700	49,336	2,200	46,761
	233,850	236,136	230,350	233,561

30. SEGMENT INFORMATION

The Consolidated Entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in the Midwest region of Western Australia.

Notes to the Consolidated Financial Report (continued)

31. EVENTS AFTER THE BALANCE SHEET DATE

On 5 August 2009 the High Court of the Hong Kong Special Administrative Region dismissed an application by Sinom (Hong Kong) Limited for an injunction to restrain Mount Gibson Mining Limited from presenting a winding–up petition based on debt demanded in a statutory demand of 24 October 2008. On 6 August 2009 Mount Gibson Mining Limited filed a winding-up petition with the High Court of the Hong Kong Special Administrative Region in respect of the unsatisfied debt demanded in the statutory demand.

Apart from the above, as at the date of this report there are no significant events after balance date of the Company or of the Consolidated Entity that require adjustment of or disclosure in this report.

32. FINANCIAL INSTRUMENTS

[a] Financial risk management objectives

The Consolidated Entity's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits.

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

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

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

The main risks arising from the Consolidated Entity'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 and they are summarised below.

[b] Foreign currency risk

The Consolidated Entity is exposed to the risk of adverse movement in the A$ compared to the US$ as its iron ore sales receipts are denominated in US$. The Consolidated Entity uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US$ sales transactions in accordance with its risk management policy being a minimum of 50% and maximum of 70% of the next 12 months of forecast US$ sales. The primary objective of using derivative financial instruments is to reduce the volatility of earnings and cashflows attributable to changes in the US$/A$ exchange rate and to protect against adverse movements in these rates. In addition, the majority of the hire purchase liabilities for the mining equipment at Koolan Island are denominated in US$.

The Consolidated Entity recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Consolidated Entity applies hedge accounting to forward foreign currency contracts that meet the criteria of cash flow hedges. The accounting policy for hedge accounting is set out in note 1(z).

On 30 June 2009, pursuant to the Amended Facility Agreement, the Consolidated Entity's Banking Syndicate rolled forward forecast excess US dollar foreign exchange forward contracts in the 2008/2009 financial year amounting to US$157,500,000 into subsequent financial years. These outstanding US dollar foreign exchange forward contracts totalling US$157,500,000 did not qualify as 'effective hedges' under the Company's hedge accounting policy. Consequently, as at 30 June 2009, an accounting mark-to-market loss of A$14,625,000 (pre-tax) was recorded in the Income Statement.

At 30 June 2009, the profile of the restructured US dollar foreign exchange forward contract totalling US$355,100,000 was:

- U$134,750,000 due in the 6 months ending 31 December 2009 - weighted average A$ rate of 0.807;
- U$134,350,000 due in the 6 months ending 30 June 2010 - weighted average A$ rate of 0.846; and
- U$86,000,000 due in the 6 months ending 31 December 2010 - weighted average A$ rate of 0.842.

As at 30 June 2009, based on the year end rate of 0.8135 the mark-to-market loss on the total outstanding US dollar foreign exchange forward contracts of US$355,100,000 was $16,252,000.

The hire purchase liabilities for the mining equipment at Koolan are denominated in USD.

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

Notes to the Consolidated Financial Report (continued)

The Consolidated Entity uses the following derivative instruments to manage foreign currency risk:

Instrument	Type of Hedging	Objective
Forward exchange contracts	Committed	Hedge sales receipts against cash flow volatility arising from the fluctuating USD/AUD exchange rates.
Collars	Committed	Hedge sales receipts against cash flow volatility arising from the fluctuating USD/AUD exchange rates by limiting exposure to exchange rates within a certain range of acceptable rates.

[i] Forward exchange contracts - cash flow hedges

The Consolidated Entity has entered into forward exchange contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in USD.

At balance date the following foreign exchange contracts were outstanding:

	2009				2008			
	Average Contract Rate	USD $'000	Contract Value AUD $'000	Fair Value AUD $'000	Average Contract Rate	USD $'000	Contract Value AUD $'000	Fair Value AUD $'000
Forward Exchange Contracts								
- within one year	0.8259	269,100	325,804	(9,457)	0.8801	345,000	392,020	23,602
- within two years	0.8422	86,000	102,116	(6,795)	-	-	-	-
Total	**0.8298**	**355,100**	**427,920**	**(16,252)**	**0.8801**	**345,000**	**392,020**	**23,602**

		Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Current assets	(note 7)	1,902	23,602	-	-
Non-current assets	(note 7)	147	-	-	-
Current liabilities	(note 17)	(11,359)	-	-	-
Non-current liabilities	(note 17)	(6,942)	-	-	-
		(16,252)	23,602	-	-

Movement in forward exchange contract cash flow hedge reserve:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Opening balance	23,602	5,169	-	-
Change in fair value of cash flow hedges	87,237	(4,892)		
Transferred to revenue in Income Statement	(58,854)	23,325		
Transferred to derivatives in Income Statement	(54,828)	-	-	-
Closing balance	(2,843)	23,602	-	-
Cash flow hedge ineffectiveness recognised immediately in profit and loss	-	105	-	-

[ii] Foreign currency sensitivity

The following table details the effect on profit and equity after tax of a 10% change in the Australian dollar against the USD from the spot rate at 30 June 2009 and 30 June 2008.

	Consolidated			
	Net Profit		Equity (Hedge Reserve)	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
10% appreciation in the AUD spot rate with all other variables held constant	676	(3,337)	15,334	31,995
10% depreciation in the AUD spot rate with all other variables held constant	(825)	4,078	(19,366)	(39,106)

The sensitivity analysis of the Consolidated Entity's exposure to the foreign currency risk at balance date has been determined based on the change in fair value due to foreign exchange movement based on exposures at balance sheet date. A positive number indicates an increase in profit and equity. All mark-to-market movements in cash flow hedges have been assumed to go to equity as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

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

		Consolidated		Company	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Financial assets					
Cash	(included within note 4)	4,373	15,927	-	-
Trade receivables	(included within note 5)	25,463	77,830	-	-
Financial Liabilities					
Trade payables	(included within note 15)	(310)	(19)	-	-
Hire purchase facility	(included within note 17)	(40,137)	(41,308)	-	-
Net exposure		**(10,611)**	**52,430**	**-**	**-**

[c] Interest rate risk

The Consolidated Entity's exposure to market interest rates relates primarily to the Consolidated Entity's long-term debt obligations and cash equivalents.

The Consolidated Entity's policy is to manage its interest costs using a mix of fixed and variable rate debt, and to keep between 50% and 75% of its borrowings at fixed rates of interest. The Consolidated Entity has entered into interest rate swaps, in which the Consolidated Entity agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

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

At balance date, the Consolidated Entity and the Company's exposure to interest rate risks on financial assets and financial liabilities are as follows:

32. FINANCIAL INSTRUMENTS (CONTINUED)

	Fixed interest rate maturing in:								Total carrying amount per balance sheet		Weighted Average Interest	
	Floating interest rate		1 year or less		Over 1 to 5 years		Non-interest bearing					
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%	%
CONSOLIDATED												
i) ***Financial assets***												
Cash	27,962	33,926	194,204	14,725	-	-	7	7	**222,173**	**48,658**	**4.06**	**6.36**
Trade and other receivables	-	-	-	-	-	-	17,224	83,436	**17,224**	**83,436**	**-**	**-**
Listed shares	-	-	-	-	-	-	-	1,113	**-**	**1,113**	**-**	**-**
Performance bonds	-	-	15,107	-	-	-	-	-	**15,107**	**-**	**3.02**	**-**
Convertible notes	-	-	-	-	-	-	1,000	1,000	**1,000**	**1,000**	**-**	**-**
Derivatives	-	-	-	-	-	-	2,224	25,161	**2,224**	**25,161**	**-**	**-**
Total financial assets	**27,962**	**33,926**	**209,311**	**14,725**	**-**	**-**	**20,455**	**110,717**	**257,728**	**159,368**		
ii) ***Financial liabilities***												
Trade and other payables	-	-	-	-	-	-	75,103	73,406	**75,103**	**73,406**	**-**	**-**
Derivatives	-	-	-	-	-	-	21,298	342	**21,298**	**342**	**-**	**-**
Lease liabilities	-	-	3,972	3,961	6,711	10,320	-	-	**10,683**	**14,281**	**8.82**	**8.35**
Hire purchase	-	-	10,357	8,454	42,369	33,931	-	-	**52,726**	**42,385**	**7.61**	**7.43**
Corporate debt	30,500	30,500	74,500	-	-	74,500	-	-	**105,000**	**105,000**	**7.29**	**8.99**
Total financial liabilities	**30,500**	**30,500**	**88,829**	**12,415**	**49,080**	**118,751**	**96,401**	**73,748**	**264,810**	**235,414**		
COMPANY												
i) Financial assets												
Cash	4,538	4,562	-	-	-	-	-	-	**4,538**	**4,562**	**3.60**	**6.65**
Trade and other receivables	-	-	-	-	-	-	230	38	**230**	**38**	**-**	**-**
Related party receivable	-	-	-	-	236,426	51,763	37,801	64,184	**274,227**	**115,947**	**7.00**	**7.00**
Performance bonds	-	-	15,107	-	-	-	-	-	**15,107**	**-**	**3.02**	**-**
Derivatives	-	-	-	-	-	-	175	1,559	**175**	**1,559**	**-**	**-**
Investment in subsidiaries	-	-	-	-	-	-	347,640	344,509	**347,640**	**344,509**	**-**	**-**
Listed shares	-	-	-	-	-	-	-	1,113	**-**	**1,113**	**-**	**-**
Convertible notes	-	-	-	-	-	-	1,000	1,000	**1,000**	**1,000**	**-**	**-**
Total financial assets	**4,538**	**4,562**	**15,107**	**-**	**236,426**	**51,763**	**386,846**	**412,403**	**642,917**	**468,728**		
ii) Financial liabilities												
Trade and other payables	-	-	-	-	-	-	6,423	2,114	**6,423**	**2,114**	**-**	**-**
Derivatives	-	-	-	-	-	-	2,997	342	**2,997**	**342**	**-**	**-**
Related party loans	-	-	-	-	-	-	18,519	18,861	**18,519**	**18,861**	**-**	**-**
Corporate debt	30,500	30,500	74,500	-	-	74,500	-	-	**105,000**	**105,000**	**7.29**	**8.99**
Total financial liabilities	**30,500**	**30,500**	**74,500**	**-**	**-**	**74,500**	**27,939**	**21,317**	**132,939**	**126,317**		

Notes to the Consolidated Financial Report (continued)

32. FINANCIAL INSTRUMENTS (CONTINUED)

[i] Interest rate swaps – cash flow hedges

The corporate debt facility of the Consolidated Entity currently bears an average variable interest rate of 7.29%. In order to protect against rising interest rates the Consolidated Entity has entered into interest rate swap contracts under which it has a right to pay interest at fixed rates. Swaps in place cover approximately 71% (2008: 71%) of the principal outstanding and will expire on 30 June 2010. The fixed interest rates range between 6.98% and 8.08% (2008: 6.98% and 8.08%) and the variable rate is 1.5% (2008: 1.5%) above the 90 day bank bill rate, which at balance date was 3.24% (2008: 7.89%).

At 30 June 2009, the notional principal amount and period of expiry on the interest rate swap contracts are as follows:

	Consolidated		Company	
	2009	**2008**	**2009**	**2008**
	$'000	**$'000**	**$'000**	**$'000**
Less than 1 year	74,500	74,500	74,500	74,500
	74,500	74,500	74,500	74,500
Current assets (note 7)	175	1,559	175	1,559
Current liabilities (note 17)	(2,997)	(342)	(2,997)	(342)
	(2,822)	**1,217**	**(2,822)**	**1,217**

The interest rate swaps require settlement of net interest payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. All swaps are matched directly against the appropriate loans and interest expense and as such are considered highly effective. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and re-classified into profit and loss when the interest expense is recognised.

Movement in interest rate swap contract cash flow hedge reserve

	Consolidated		Company	
	2009	**2008**	**2009**	**2008**
	$'000	**$'000**	**$'000**	**$'000**
Opening balance	1,174	-	1,174	-
Transferred to interest expense	1,215	(286)	1,215	(286)
Charged to equity	(5,008)	1,460	(5,008)	1,460
Closing balance	(2,619)	1,174	(2,619)	1,174
Cash flow hedge ineffectiveness recognised immediately in profit and loss (included in other expenses)	-	-	-	-

[ii] Interest rate sensitivity

The following table details the effect on profit and equity after tax to a 1% change in the interest rates at 30 June 2009 and 30 June 2008.

	Consolidated				Company			
	Net Profit		Equity		Net Profit		Equity	
	2009	2008	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
1% increase in interest rate with all other variables held constant	1,146	(735)	421	1,203	(214)	(735)	421	1,203
1% decrease in interest rate with all other variables held constant	(1,146)	735	(427)	(1,232)	214	735	(427)	(1,232)

The sensitivity analysis of the Consolidated Entity's exposure to the interest rate risk at balance date has been determined based on exposures at balance sheet date. A positive number indicates an increase in profit and equity. All mark-to-market movements in cash flow hedges have been assumed to go to equity as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

[d] Credit risk

The Consolidated Entity'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 Consolidated Entity'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 Consolidated Entity.

The Consolidated Entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale.

Credit risk from balances with banks and financial institutions is managed by Treasury in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties with a Standard & Poors short term credit rating of at least A-1 and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Mount Gibson Board on an annual basis, and may be updated throughout the year subject to approval of the Mount Gibson Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is 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 Consolidated Entity.

[e] Commodity price risk

The Consolidated Entity's operations are exposed to commodity price risk. Iron ore prices are set each year and apply from 1 April to 31 March the following year. Revenue on sales is recognised based on provisional priced sales and is subject to final adjustments between 30 to 120 days after delivery of the commodity. There are no readily available financial instruments available to hedge the iron ore price.

Notes to the Consolidated Financial Report (continued)

[f] Liquidity risk and Capital risk management

The Consolidated Entity's objective is to maintain a balance between continuity of funding and flexibility through the use of its corporate debt facility, finance leases and hire purchase contracts. The Consolidated Entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Consolidated Entity's capital risk management objectives are to safeguard the business as a going concern, to maximise 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 Corporate 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. Note 16 sets out details of the Amended Corporate Debt facility.

At 30 June 2009, the Consolidated Entity had unutilised standby credit facilities totalling $78,000,000 (2008: $82,000,000).

The table below analyses the Consolidated Entity and the Company's financial liabilities into 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 2009					**30 June 2008**				
	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**
<u>Consolidated</u> Financial Liabilities										
Trade and other payables	75,103	-	-	-	**75,103**	73,406	-	-	-	**73,406**
Lease liabilities	2,328	2,441	7,185	-	**11,954**	2,552	2,511	11,564	-	**16,627**
Hire purchases	7,913	5,923	46,951	-	**60,787**	5,976	5,118	38,713	-	**49,807**
Corporate debt	2,574	2,551	105,000	-	**110,125**	4,554	4,480	114,033	-	**123,067**
Derivatives – Gross Inflow	(167,279)	(149,067)	(95,321)	-	**(411,667)**	-	-	-	-	**-**
Derivatives – Gross Outflow	169,891	158,735	102,116	-	**430,742**	145	-	-	-	**145**
	90,530	**20,583**	**165,931**	**-**	**277,044**	**86,633**	**12,109**	**164,310**	**-**	**263,052**
<u>Company</u> Financial Liabilities										
Trade and other payables	6,423	-	-	-	**6,423**	2,114	-	-	-	**2,114**
Intercompany	18,519	-	-	-	**18,519**	18,861	-	-	-	**18,861**
Corporate debt	2,574	2,551	105,000	-	**110,125**	4,554	4,480	114,033	-	**123,067**
Derivatives – Gross Outflow	2,822	-	-	-	**2,822**	-	-	-	-	**-**
	30,338	**2,551**	**105,000**	**-**	**137,889**	**25,529**	**4,480**	**114,033**	**-**	**144,042**

Notes to the Consolidated Financial Report (continued)

[g] Fair value of financial assets and financial liabilities

The carrying amounts and fair values of the financial assets and financial liabilities for the Consolidated Entity and the Company are shown below.

The fair value representing the mark to market of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

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

The fair values of derivative financial instruments are sourced from an independent valuation by the Company's treasury advisor, Oakvale Capital ("**Oakvale**"). Oakvale's valuation techniques use prevailing market inputs sourced from Reuters/Bloomberg to determine an appropriate mid price valuation.

	Consolidated				Company			
	2009		2008		2009		2008	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial assets - current								
Cash	27,966	27,966	33,930	33,930	4,538	4,538	4,562	4,562
Short-term deposits	194,207	194,207	14,728	14,728	-	-	-	-
Trade debtors	11,480	11,480	78,493	78,493	-	-	-	-
Other receivables	5,744	5,744	4,943	4,943	1,230	1,230	38	38
Derivatives	2,077	2,077	25,161	25,161	175	175	-	-
Other assets	15,107	15,107	-	-	15,107	15,107	-	-
	256,581	256,581	157,255	157,255	21,050	21,050	4,600	4,600
Financial assets – non current								
Other receivables	-	-	1,000	1,000	274,227	274,227	116,947	116,947
Derivatives	147	147	-	-	-	-	-	-
Available-for-sale assets	-	-	1,113	1,113	-	-	1,113	1,113
	147	147	2,113	2,113	274,227	274,227	118,060	118,060
Financial liabilities – current								
Trade and other payables	75,103	75,103	73,406	73,406	24,942	24,942	20,975	20,975
Lease liabilities	14,329	14,329	12,415	12,415	-	-	-	-
Corporate debt	105,000	105,000	-	-	105,000	105,000	-	-
Derivatives	14,356	14,356	342	342	2,997	2,997	-	-
	208,788	208,788	86,163	86,163	132,939	132,939	20,975	20,975
Financial liabilities – non current								
Lease liabilities	49,080	49,080	44,251	44,251	-	-	-	-
Derivatives	6,942	6,942	-	-	-	-	-	-
Corporate debt	-	-	105,000	105,000	-	-	105,000	105,000
	56,022	56,022	149,251	149,251	-	-	105,000	105,000
Net financial assets / (financial liabilities)	**(8,082)**	**(8,082)**	**(76,046)**	**(76,046)**	**162,338**	**162,338**	**(3,315)**	**(3,315)**

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 Company and of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

      i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2009 and of their performance for the year ended on that date; and

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

   b. there are reasonable grounds to believe that the Company 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 2009.

Signed in accordance with a resolution of the directors.

N HAMILTON
Chairman

Perth, 13 August 2009

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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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (d), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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.

ERNST & YOUNG

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. 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 financial position of Mount Gibson Iron Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 19 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Mount Gibson Iron Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner

13 August 2009

Corporate Governance Statement

THE BOARD AND CORPORATE GOVERNANCE

The Company's Board is committed to protecting and enhancing shareholder value and conducting the Company's business ethically and in accordance with high standards of corporate governance.

The Company's Corporate Governance Principles and Practices Manual were approved on 10 June 2006 and have been reviewed and updated as necessary during the year.

A description of the Company's main corporate governance practices is set out below. Copies of the relevant corporate governance policies are available in the corporate governance section of the Company's website at www.mtgibsoniron.com.au.

The Board will continue to review and develop its corporate governance practices and the corporate governance section of the website will be updated with policies and procedures as they are formally adopted by the Company.

THE ROLE OF THE BOARD AND THE BOARD CHARTER

The Board operates in accordance with the broad principles set out in the Company's Board Charter, a copy of which is available from the Company's website. The Board is responsible for guiding and monitoring the Company on behalf of Shareholders by whom they are elected and to whom they are accountable. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of Shareholders.

Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are delegated by the Board to the Managing Director and senior executives, as set out in the Board Charter.

The Board Charter sets out the following overall powers and responsibilities of the Board:

- charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available;
- monitoring the implementation of those policies and strategies and the achievement of those financial objectives and performance against the strategic plan and budgets; and
- monitoring compliance with control and accountability systems, significant disclosures to the market regulatory requirements and ethical standards.

Specific powers and responsibilities reserved to the Board in the Board Charter include:

- appointing, removing and monitoring the performance of the Managing Director and Company Secretary, determining their terms and conditions of employment and ratifying other key executive appointments and planning for executive succession;
- reviewing and ratifying systems of risk management and internal control and compliance, codes of conduct and legal compliance;
- reviewing and ratifying financial and other reporting;
- reviewing and ratifying major capital expenditure, capital management and acquisitions and divestitures; and
- approving the issue of any shares, options or other securities in the Company.

A statement on Board and management functions, which sets out those matters reserved to the Board and the roles and responsibilities of senior management, is available on the Company's website.

MANAGING DIRECTOR

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and implementing the policies and strategy set by the Board. In carrying out his responsibilities the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

CONFLICT OF INTERESTS POLICY

The Board has adopted a Conflict of Interest Policy which establishes a protocol under which each Director is required to disclose certain interests and the advise the Board in circumstances where a potential conflict of interest may arise. The Conflicts of Interest Policy also sets out the procedures to be followed where the Chairman determines that a Director's interest in a matter may be sufficiently material or may result in a conflict of interest occurring.

BOARD COMPOSITION

As at the date of this report the Company has seven Directors: six Non-Executive Directors including the Chairman, and one Executive Director.

Board composition will be reviewed annually to ensure that the non-executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. All Directors, other than the Managing Director, are required to retire and stand for re-election by Shareholders, every three years.

Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report are set out on page 2.

DIRECTOR INDEPENDENCE

The Company's Policy on Independence of Directors provides criteria for the assessment of the independence of Directors. A Director may be considered by the Board to be independent where the Director does not meet one or more of the criteria. An independent director, as set out in the ASX Guidelines, is a non-executive director who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors unfettered and independent judgement.

The Board consider that of the Non-Executive Directors, Messrs Hamilton, Readhead, Macliver and Jones are independent. This represents a majority of the Directors comprising the Board. In making this assessment the following were considered in relation to the criteria and the test for independence:

- Both Mr Hamilton, who is the Chair of the Board, and Mr Macliver have no business or other relationships which could be said to interfere with the independent exercise of their judgment;
- Mr Readhead is a partner of the law firm Allion Legal, which, from time to time, provides legal services to the Consolidated Entity. The fees in relation to these legal services are not material to the Company or to the provider.
- Mr Jones is a non-executive director of a substantial shareholder of the Company, however the other independent Directors are of the view that this relationship does not materially interfere with the independent exercise of his judgement.

Messrs Cao and Chen are executive officers of substantial shareholders of the Company and because of this relationship and the perception which this may give rise to, neither are classified as independent directors.

If any Director has a material interest in a matter, the Director will not be permitted to vote on the matter.

DIRECTORS' ACCESS TO INDEPENDENT ADVICE

The Company recognises that, from time to time, a Director may need to obtain his or her own expert advice in order to discharge that Director's duties. The Directors must ensure, to the extent possible, that any advice obtained is independent of the Company. Any reasonable expenses incurred in obtaining that advice will be met by the Company.

BOARD MEETINGS

The Board meets at least nine times each year, and full Board meetings are usually held bi-monthly. From time to time meetings are convened outside the scheduled dates to consider issues of importance. In addition the Board conducts visits to the Group's operations at least once per year.

Directors' attendance at Board and Committee meetings is detailed on page 18.

BOARD COMMITTEES

The Company's Board has established an Audit and Risk Management Committee and a Nomination, Remuneration and Governance Committee.

Audit and Risk Management Committee ("ARMC")

The ARMC is comprised of Messrs Jones, Readhead and Macliver. It has a formal charter and meets generally two times during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at ARMC meetings is detailed on page 18.

The ARMC's overall role is to assist the Board in fulfilling its responsibilities for the Company's financial reporting and audit, internal control and financial risks.

The ARMC's specific responsibilities include (but are not limited to):

- evaluating the effectiveness of the Company's internal control measures, and gaining an understanding of whether internal control recommendations made by external auditors have been implemented;
- understanding the current areas of greatest financial risk for the Company and management's response to minimising those risks;
- reviewing significant accounting and reporting issues; and
- reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit.

The Managing Director, Chief Financial officer and the External Auditors usually attend ARMC meetings.

Nomination, Remuneration and Governance Committee ("NRGC")

The NRGC is comprised of Messrs Hamilton, Readhead and Macliver. It has a formal charter and meets generally at least two times during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at NRGC meetings is detailed on page 18.

The NRGC's specific responsibilities include (but are not limited to):

- reviewing and recommending to the Board the size, composition and membership of the Board;
- developing and facilitating the process for Board and Director evaluation;
- making recommendation to the Board on remuneration of Directors and Senior Executives;
- reviewing the Managing Director's performance, at least annually; and
- review and implementation of Corporate Governance protocols.

Details of the structure of non-executive Directors' remuneration and executive Director's and Senior executives' Remuneration is set out in the Directors Report.

CORPORATE REPORTING

The Managing Director and Chief Financial Officer have made the following certifications to the Board with respect to the 2009 accounts:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and the Company's risk management and internal control is operating efficiently and effectively in all material respects.

SECURITIES DEALING POLICY

The Company has a policy imposing restraints on Directors and Senior Executives dealing in the Company's securities. The policy is aimed at minimising the risk of Directors and Senior Executives contravening insider trading laws, ensuring the Company is able to meet its reporting obligations under the ASX Listing Rules and increasing transparency with respect to trading in the Company's securities by Directors and Senior Executives. A copy of this policy is located on the Company's website.

FINANCIAL REPORTING

Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the financial year ended 30 June 2009 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

- compliance with the Company's accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

INDEMNITIES

The Company has entered into deeds of access, indemnity and insurance with each Director. These deeds provide access to documentation, indemnification against liability from conduct of the Company's business and subsidiaries, and Directors' and officers' liability insurance.

DIRECTORS AND SENIOR EXECUTIVES PERFORMANCE EVALUATION AND REMUNERATION

The Board annually self assess its collective performance, and the performance of individual Directors and of Board committees. The assessment is undertaken using questionnaires, discussions and, where applicable, advice from external consultants.

The Company's Policy on Identifying, Assessing and Enhancing Director Competencies and its Remuneration Policy are available on its website.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

The Company has established a Continuous Disclosure policy, identifying the procedure for executives in identifying material price sensitive information and reporting that information to the Company Secretary for review. The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

The Company has also adopted:

- Policy for dealing with Media Enquiries; and
- Policy for Shareholder Communications in order to promote effective communication with shareholders and encouraging participation at the Company's annual general meeting.

Copies of each of these policies are located on the Company's website.

Shareholders may elect to receive company reports by mail or e-mail.

RISK MANAGEMENT

The Board is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

- ensure compliance in legal statutory and ethical matters;
- monitor the business environment;
- identify business risk areas; and
- identify business opportunities.

The Company does not have a formal internal audit function (ASX Principle 7.2) as the Board considers that the Company is not of a size to warrant the implementation of a separate internal audit function.

The Board has delegated responsibility to the ARMC to review and report to the Board that:

- the Company's ongoing risk management program effectively identifies all areas of potential risk;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- proper remedial action is undertaken to redress areas of weakness.

The Company has in place specific policies and programs addressing certain strategic, financial, operational and compliance risks. Comprehensive reports addressing each of these areas are provided regularly to management and the Board. In addition, the Company has in place a crisis and emergency management system designed to address emergencies at any of the Company's operating sites.

AUDITORS

The external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

ETHICAL STANDARDS AND CONDUCT

The Company has an Employee Code of Conduct providing a framework of principles for conducting business and dealing with stakeholders. Employees are required to perform and act with integrity, fairness and in accordance with the law and to avoid real or apparent conflicts of interest. In addition, the Company has also established a Board Code of Conduct for Directors, which establishes guidelines for their conduct in carrying out their duties. Copies of both Codes of Conduct are located on the Company's website.