Mount Gibson Iron

Mount Gibson Iron Limited
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Pages = 80

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

30 JUNE 2011 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 under ASX Listing Rule 4.3A.

Financial Highlights

- Sales revenue of $672.1 million — up 25% on the previous year
- Operating profit before tax of $342.9 million — up 82% on the previous year
- Net profit after tax of $239.5 million — up 81% on the previous year
- Total assets of $1,557.1 million — up 20% on the previous year
- Net assets total of $1,166.5 million — up 26% on the previous year
- Cash on hand and term deposits at 30 June 2011 of $387.0 million
- Debt drawn at 30 June 2011 - Nil

The Preliminary Final Report (Appendix 4E) and audited Financial Statements for the year ended 30 June 2011 are attached.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

David Berg
Company Secretary

For further information:

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- Current Reporting Period: 12 months ended 30 June 2011
- Previous Corresponding Period: 12 months ended 30 June 2010

		A$ millions
Revenue from ordinary activities	up 25% to	672.1
Net profit after tax from ordinary activities	up 81% to	239.5
Net profit after tax attributable to members	up 81% to	239.5

DIVIDENDS

	Amount per security	**Franked amount per security**
Final dividend	4 cents	4 cents

Record date for determining entitlements to the dividend 26 August 2011

Date the final dividend is payable 9 September 2011

No dividends have been paid or declared for the year ended 30 June 2010.

RATIOS

- Net tangible asset backing per share is $0.397 (2010: $0.361)

  Net tangible asset backing per share has been calculated by dividing the Net Assets excluding Mine Properties 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 2011 together with any public announcements made by Mount Gibson during the year ended 30 June 2011 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 2011

Financial Report

For the year ended 30 June 2011

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Directors' Report

Your Directors submit their report for the year ended 30 June 2011 for Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the consolidated entity incorporating the entities that it controlled during the financial year ("**Group**").

DIRECTORS

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

Names, Qualifications, Experience and Special Responsibilities

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

Mr Readhead was appointed as a Non-Executive Director on 21 December 2001 and Chairman on 17 November 2010. 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 Chairman of the Nomination, Remuneration and Governance Committee and a member of 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, Galaxy Resources Ltd and Beadell Resources Ltd and is a Non-Executive Director of Frankland River Olive Company Limited, General Mining Corporation Ltd and India Resources Ltd. He 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 not served as a director of any other listed companies.

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.

Ian Macliver
B.Comm, FCA, F Fin, AICD
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 Otto Energy Ltd and Select Vaccines Ltd. During the past three years Mr Macliver has served as a director of Port Bouvard Ltd and Carparking Technologies Ltd (formerly Empire Beer Group 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), and IFC Capital Limited. During the past 3 years Mr Jones has also served as a director of APAC Resources Limited.

Cao Zhong
B.Eng, M.Econ
Non-Executive Director

Mr Cao was appointed as a Non-Executive Director on 1 December 2008. He graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences, with a bachelor degree in engineering and a masters degree in economics respectively. Mr Cao has extensive experience in corporate management and operations. Mr Cao is the Chairman, executive director and chief executive officer of China Timber Resources Group Limited. He was the Managing Director of Shougang Concord International Enterprises Company Limited ("**Shougang International**") from November 2001 to May 2010 and is currently the Vice Chairman and non-executive director of Shougang International. During the past three years, Mr Cao has also served as the Chairman and executive director of APAC Resources Limited, the Chairman of Shougang Concord Technology Holdings Limited, the Chairman of Shougang Concord Century Holdings Limited, the Vice Chairman and Managing Director of Shougang Concord Grand (Group) Limited, the Chairman of Global Digital Creations Holdings Limited and the Vice Chairman and Managing Director of Shougang Fushan Resources Group Limited (formerly known as Fushan International Energy Group 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 International in November 2002. He is also the Deputy Managing Director of Shougang Holding (Hong Kong) Limited ("**Shougang Holding**") and the Vice Chairman and Managing Director of Shougang Fushan Resources Group Limited formerly known as 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 International is the holding company. During the past 3 years Mr Chen has not served as a director of any other listed companies.

Lee Seng Hui
B.Law (Hons)
Non-Executive Director

Mr Lee was appointed a Non-Executive Director on 29 January 2010. Mr Lee graduated with Honours from the University of Sydney Law School. Mr Lee is the Chief Executive and an Executive Director of Allied Group Limited which is listed on the Hong Kong Stock Exchange. Mr Lee is also the Chairman and a Non-Executive Director of Tian An China Investments Company Limited and a Non-Executive Director of Tanami Gold NL and APAC Resources Limited. Mr Lee was previously the Chairman and an Executive Director of Yu Ming Investments Limited (now known as SHK Hong Kong Industries Limited). During the past 3 years Mr Lee has not served as a director of any other listed companies.

Geoffrey Hill
B.Econ, MBA, FCPA, FCDA, FSIA
Non-Executive Director

Mr Hill was appointed a director on 20 May 2011. He is a company director and merchant banker. He served as Managing Director and Chief Executive Australia of the Morgan Grenfell group in the mid-1980s, before forming his own investment advisory business, International Pacific Securities. He is currently the chairman of Texas and Oklahoma Coal Company Limited, Heritage Gold Limited and Metals Finance Limited and a director of Broken Hill Prospecting Limited and Asian Property Investments Limited and is the executive chairman of International Pacific Securities Inc. During the past 3 years Mr Hill has also served as a director of Centrex Metals Limited, Hills Holdings Limited and Outback Metals Limited.

Directors' Report (continued)

Alan Rule
B.Comm, B.Acc, FCA, 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.

Peter Curry
B.Comm, B.Law, CA, FAICD
Alternate Director to Lee Seng Hui

Mr Curry was appointed Alternate Director on 11 February 2011. With over 35 years of business experience, he worked as Tax Partner in Peat Marwick Mitchell (now known as "KPMG") and thereafter in different listed and unlisted companies in Australia as executive director or managing director specializing in natural resources, corporate finance, mergers and acquisitions. He has extensive experience in public and private capital raising, initial public offering related services and corporate and financial advisory services. Mr Curry is a director of APAC Resources Limited, Sun Hung Kai & Co Limited and Ormil Energy Limited. During the past 3 years Mr Curry has also served as a director of Forrest Enterprises Australia Limited.

Neil Hamilton was the Non-Executive Chairman until 17 November 2010.

Peter Knowles was a Non-Executive Director until 17 November 2010.

Robert Wilcocks was alternate Director to Lee Seng Hui until 11 February 2011.

COMPANY SECRETARY

David Berg
B.Com, LLB

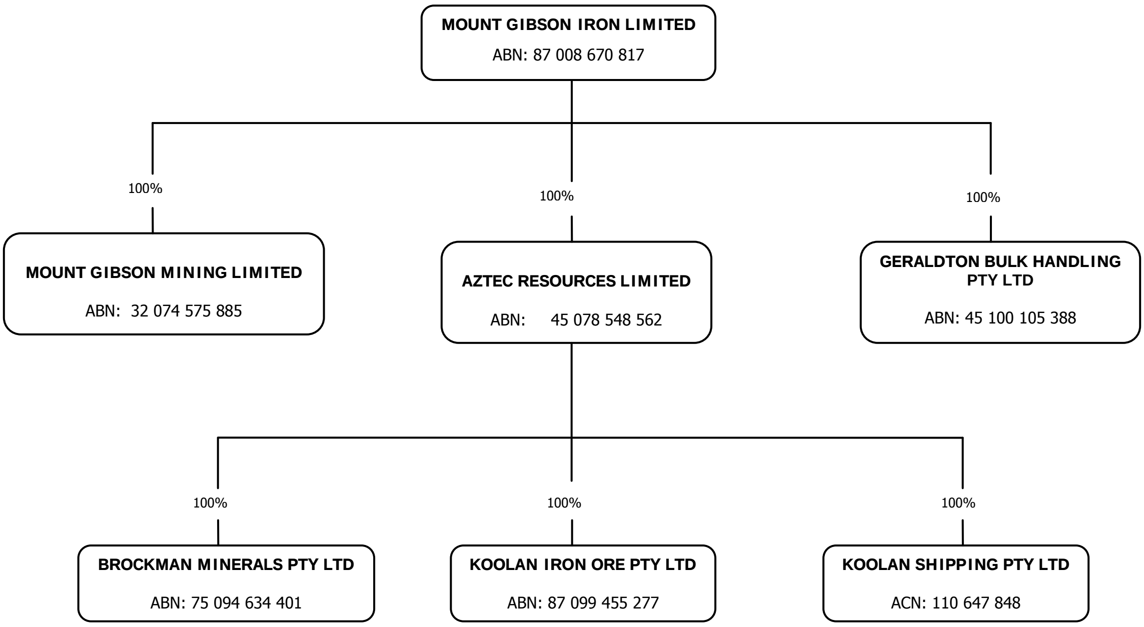
Mr Berg was appointed Company Secretary & General Counsel on 21 August 2008. He is a commercial and corporate lawyer with experience in advising on a diverse range of matters, including mergers and acquisitions, ASX Listing Rules, capital raisings, ore sales agreements and dispute resolution. Prior to joining Mount Gibson, Mr Berg was Legal Counsel at a large, diversified private company and, before that, worked for Freehills Perth in their Corporate Group.

Directors' Report (continued)

CORPORATE INFORMATION

Corporate Structure

Mount Gibson is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the Group as at 30 June 2011 was as follows:



Nature of Operations and Principal Activities

The principal activities of the entities within the Group 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 Group employed 464 employees (excluding contractors) as at 30 June 2011 (2010: 327 employees). The increase in employees resulted from the transition from contractor mining to owner mining at Koolan Island and the commencement of mining operations at Extension Hill.

Future Funding

As at the date of this report the Group 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 3 November 2010, Mount Gibson announced that it had reached agreement with two of its customers, Shougang Concord International Enterprises Company Limited ("**Shougang**") and APAC Resources Limited ("**APAC**"), on a revised pricing mechanism to apply under ore sales agreements for Tallering Peak and Koolan Island iron ore product ("**Sales Agreements**"). The revised pricing mechanism reflects a market based clearing index. Previously, pricing under the Sales Agreements was based on the annual benchmark price set by Rio Tinto and its subsidiaries for its Pilbara blend lump and fines products. As no benchmark price had been announced by Rio Tinto for the 2010/11 year Mount Gibson negotiated with Shougang and APAC a revised pricing mechanism to apply in place of the benchmark price. The agreed revised pricing mechanism adopts the Platts Iron Ore Index Price ("**Platts Index**") which is published daily for iron ore product with Fe content ranging from 58% to 65% and is quoted on a US$ per dry metric tonne CFR North China basis. The price to be paid by Shougang and APAC for Mount Gibson's Tallering Peak and

Koolan Island iron ore is based on the applicable Platts Index for the type and quality of ore delivered and reflects the average Platts Index for the preceding calendar month of the iron ore shipment. The average monthly Platts Index is converted to an FOB price per dry metric tonne by deducting the calculated shipping freight costs utilising corresponding shipping average monthly indices for Panamax vessels from the ports of Geraldton and Koolan Island to Qingdao. Lump iron ore receives a premium to the published Platts Index price and is determined every 6 months.

Mount Gibson attempted to negotiate with Shougang and APAC a revised pricing mechanism to apply in place of the benchmark price at Extension Hill and was unable to agree a revised pricing mechanism as contemplated by the sales agreements. Consequently Mount Gibson terminated the Extension Hill agreements with Shougang and APAC and has been openly marketing all iron ore sales from Extension Hill to potential customers other than Shougang and APAC ensuring acceptable commercial terms and conditions prior to commencement of shipping in the second half of the 2011/12 financial year.

Mount Gibson reached agreement with Stemcor (S.E.A.) Pte Ltd on a revised pricing mechanism to apply under the long term ore sales agreement for Tallering Peak which also reflects a market based clearing price.

However, despite lengthy good faith negotiations, no agreement on a revised pricing mechanism to apply under the long term ore sales agreements for Koolan Island was reached with the two remaining customers, CITIC and Marubeni, and so these agreements have now ceased to be binding on the parties.

Until November 2008, the Group 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 Group to sell ore at prices determined by reference to the Hamersley Benchmark Iron Ore Price. During the December 2008 quarter Mount Gibson announced that a number of its customers had failed to collect iron ore cargoes in accordance with binding long term offtake agreements. Agreements with three of these customers namely, Pioneer Iron and Steel Group Co Ltd ("**Pioneer**"), Rizhao Steel Holding Group Co Ltd ("**Rizhao**") and Sinom (Hong Kong) Ltd ("**Sinom**"), were subsequently terminated in accordance with their terms. The Group reached a settlement with Sinom Ltd on 29 October 2009 and the full amount due under the settlement was satisfied on 10 May 2010. Arbitration proceedings were completed between the Group and the other two former customers with Mount Gibson seeking to recover the losses it claims arising from the breach and subsequent termination of the agreements:

- On 23 July 2010 Mount Gibson advised ASX that the arbitrator in the arbitration between its subsidiary, Mount Gibson Mining Limited ("**MGM**") and Pioneer found that Pioneer repudiated its obligations under the long term agreement with MGM for the supply of iron ore and that MGM was entitled to damages for the loss of its bargain. The arbitrator has awarded MGM US$23.14 million in damages plus MGM's costs of the arbitration. However, following the conclusion of the arbitral hearing and before the arbitrators reasons were handed down, Pioneer placed itself into insolvent liquidation meaning that MGM's entitlement to receive the final arbitral award will rank with other unsecured creditors of Pioneer. Pioneer's liquidators are yet to advise what dividend if any they expect to declare other than to say that Pioneer's asset position is very unclear.
- On 17 August 2010 Mount Gibson advised ASX that the arbitrator in the arbitration between its subsidiaries, MGM, Koolan Iron Ore Pty Limited ("**Koolan**") and Rizhao found that Rizhao repudiated its obligations under the long term agreement with MGM and Koolan for the supply of iron ore and that MGM and Koolan was entitled to damages for the loss of its bargain. The arbitrator has awarded MGM US$114 million in damages plus interest of 6% from the date of award plus MGM's costs of the arbitration. MGM and Koolan will vigorously pursue Rizhao with all means possible to recover the amount owing.

Neither of these two arbitration awards have been recognised in the financial statements to date.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

	2011 $'000	2010 $'000
Operating profit from Continuing Operations before tax	**342,888**	**188,308**
Taxation expense	(103,388)	(55,913)
Net profit after tax attributable to Members of the Company	**239,500**	**132,395**

Tallering Peak Hematite Operation

Ore tonnes mined, crushed, transported and shipped all decreased compared to the corresponding financial year due mainly to the impact of weather in the March quarter and issues related to contract blast hole drilling performance and reserve definition at the top of T6 orebody.

A significant rain bearing low pressure system moving through the Midwest over the period commencing on 16 February 2011 dumped significant rain in and around the mine site and associated infrastructure. As a result of flooded river crossings, road transport to and from the mine was suspended until water levels receded which led to Mount Gibson issuing force majeure notices to customers. The issue and subsequent lifting of the force majeure notices reduced shipping during the March and June quarters as customers rescheduled deferred shipments.

Tallering Peak ore production was also negatively impacted by the inability of the blast hole drilling contractor to achieve blast hole drilling schedules due to poor equipment and labour availability. The contractor's fleet was supplemented with additional units and maintenance resources in the June quarter to address the availability of the blast hole drill fleet.

Waste movement increased by 5% compared to the corresponding financial year however ore production was 32% lower compared with the corresponding financial year with the majority of ore being sourced from the T6A2 and T6A3 cutback. Mining from the T2 and T5 pits was completed during the year.

Mining operations are scheduled to be completed in mid 2013.

PRODUCTION SUMMARY FOR 12 MONTHS	UNIT	SEPT QTR 2010 '000	DEC QTR 2010 '000	MAR QTR 2011 '000	JUN QTR 2011 '000	YTD 2011 '000	YTD 2010 '000	% INCR/ (DECR)
Mining								
- Waste mined	*bcm*	2,543	2,268	1,548	1,825	**8,184**	**7,820**	*5%*
- Ore mined	*bcm*	220	122	93	176	**611**	**875**	*(30%)*
- Ore mined	*wmt*	921	511	400	765	**2,597**	**3,806**	*(32%)*
Crushing								
- Lump	*wmt*	437	435	346	468	**1,686**	**1,834**	*(8%)*
- Fines	*wmt*	324	388	273	395	**1,380**	**1,538**	*(10%)*
		761	**823**	**619**	**863**	**3,066**	**3,372**	*(9%)*
Transported to Mullewa Railhead								
- Lump	*wmt*	443	385	354	380	**1,562**	**1,744**	*(10%)*
- Fines	*wmt*	447	310	296	351	**1,404**	**1,592**	*(12%)*
		890	**695**	**650**	**731**	**2,966**	**3,336**	*(11%)*
Transported to Geraldton Port								
- Lump	*wmt*	329	387	149	319	**1,184**	**1,826**	*(35%)*
- Fines	*wmt*	395	412	509	325	**1,641**	**1,260**	*30%*
		724	**799**	**658**	**644**	**2,825**	**3,086**	*(8%)*
Shipping								
- Lump	*wmt*	286	474	121	304	**1,185**	**1,916**	*(38%)*
- Fines	*wmt*	401	416	476	357	**1,650**	**1,232**	*34%*
		687	**890**	**597**	**661**	**2,835**	**3,148**	*(10%)*

In accordance with the Company's stated accounting policy, deferred waste expenditure for the period has been capitalised in the Group'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 2011	12 Months ended 30 June 2010	12 Months ended 30 June 2009
Waste mined	*mill bcm*	8.18	7.82	7.52
Ore mined	*mill bcm*	0.61	0.88	0.55
Ore mined	*mill wmt*	2.59	3.81	2.39
Deferred waste capitalised	*$ mill*	105.31	85.34	89.88
Amortisation of deferred waste	*$ mill*	83.8	115.28	69.11

Directors' Report (continued)

Koolan Island Hematite Operation

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.

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.

Ore production for the year was 27% below the corresponding period last year with total material movement 27% below the corresponding period last year as wet weather conditions significantly impacted operations and the floor areas of existing pits reduced significantly restricting equipment productivity.

As detailed in the March quarterly, the wet season in the Kimberley region typically commences in November and persists through to April during which time monsoonal activity intensifies causing significant rainfall events and cyclonic events. Koolan Island's total material movement and shipping activity generally reduces during this period and is forecast to increase from April as weather improves. As a consequence, Mount Gibson budgets lower output from Koolan Island during the wet season than would otherwise be expected during the dry season. This year's wet season was extreme with over 150 mm of rain recorded on the island in December and a further 1,330 mm to the end of April which is approximately twice the average rainfall during this period. The significant rainfall events were associated with numerous tropical lows and tropical cyclone Carlos.

Other than the disruption, and subsequent force majeure event caused by evacuating employees from the island during the cyclone, the significant and repeated rainfall events caused widespread flooding of Koolan Island's open pits. This in turn caused major disruptions to mining of the existing satellite ore sources of Mullet, Acacia and Barramundi pits from which the operation is yet to fully recover. The water inundation of the crusher and ship loading areas significantly disrupted crushing, screening and loading activities given the high moisture content of stockpiles and the difficulty experienced within the materials handling system. The secondary crushing circuit experienced excessive vibration as the supersaturated area surrounding the concrete footings partially liquefied resulting in the mechanical failure of the secondary crusher and the requirement to run the primary crusher open circuit. The secondary crusher was replaced on 22 April 2011 and works were also completed to significantly enhance the structural footings of the secondary crusher.

Koolan Island's mining and maintenance contract expired at the end of June 2011. Mount Gibson did not extend this contract and is transitioning the operation to owner mining. Mount Gibson terminated the crushing contract at Koolan Island and has assumed full operations of this facility. The transition from contract mining adversely impacted Koolan Island's production performance in the June quarter however Mount Gibson is confident the benefits derived from owner mining, as demonstrated at its Tallering Peak operation, will have medium and long term cost and productivity advantages. Mount Gibson owns the majority of the mining fleet at Koolan Island and is currently replacing the BGC minor fleet and equipment. Mount Gibson has substantially completed replacing the contract workforce with Mount Gibson employees and contractors.

Ore crushed was 33% below the corresponding period last year with Koolan Island drawing down final product ore stockpiles allowing major maintenance repairs on both the primary and secondary crusher circuits.

The primary supply of high grade ore from Koolan Island was sourced from Mullet Acacia pit whilst Barramundi West ore provided a secondary ore source.

Rehabilitation of Main Pit is progressing as scheduled whilst the outer seawall embankment has been completed with the inner core and seawall instrumentation is due to be completed by the end of September 2011. Mining of the first Main Pit ore is scheduled to commence in the second quarter of the 2011/12 financial year.

Mining operations are scheduled to be completed in 2019.

Directors' Report (continued)

PRODUCTION SUMMARY FOR 12 MONTHS	UNIT	SEPT QTR 2010 '000	DEC QTR 2010 '000	MAR QTR 2011 '000	JUN QTR 2011 '000	YTD 2011 '000	YTD 2010 '000	% INCR/ (DECR)
Mining								
- Waste mined	*bcm*	3,001	2,536	1,799	2,350	**9,686**	**13,222**	*(27%)*
- Ore mined	*bcm*	284	231	110	143	**768**	**1,090**	*(30%)*
- Ore mined	*wmt*	919	775	374	455	**2,523**	**3,473**	*(27%)*
Crushing								
- Lump	*wmt*	277	308	141	296	**1,022**	**1,236**	*(17%)*
- Fines	*wmt*	397	357	199	339	**1,292**	**2,237**	*(42%)*
		674	**665**	**340**	**635**	**2,314**	**3,473**	*(33%)*
Shipping								
- Lump	*wmt*	286	287	166	148	**887**	**1,298**	*(32%)*
- Fines	*wmt*	515	578	273	148	**1,514**	**2,041**	*(26%)*
		801	**865**	**439**	**296**	**2,401**	**3,339**	*(28%)*

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

		12 Months ended 30 June 2011	12 Months ended 30 June 2010	12 Months ended 30 June 2009
Waste mined	*mill bcm*	9.69	13.22	11.87
Ore mined	*mill bcm*	0.77	1.09	1.12
Ore mined	*mill wmt*	2.52	3.47	3.52
Deferred waste capitalised	*$ mill*	192.27	174.53	159.99
Amortisation of deferred waste	*$ mill*	85.78	104.18	105.73

Directors' Report (continued)

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 Ore Reserves of 14.3 million tonnes and Mineral Resources of 22.1 million tonnes. The Extension Hill Project will have very similar operational characteristics to Mount Gibson's Tallering Peak operation with the added advantage of a lower strip ratio but due to logistics constraints will only be able to ship 3 Mtpa of hematite ore. 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 next to the new Berth 5 iron ore ship loading facility and loaded from Berth 5 for export. An upgrade of train unloading facilities ("**unloader upgrade**") necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the GPA to construct, however, Mount Gibson has agreed with the Geraldton Port Authority to fund the unloader upgrade.

Mount Gibson has in place track access and rail haulage agreements to cater for at least 3 Mtpa of production from Extension Hill. All the rail wagons required to meet Extension Hill's production targets have been delivered and a $90 million upgrade of the existing line between Geraldton and Perenjori by Westnet Rail Pty Ltd was completed by June 2011.

The commencement of crushing and subsequent road haulage to the recently completed Perenjori siding has been delayed as the crushing and screening facility design and construct contractor remedies areas of the facility where Mount Gibson has identified conveyor structures that have not been designed to satisfy the requirements of the applicable Australian Standards. The design and construction contractor has provided Mount Gibson with a wet commissioning schedule that hands the crushing and screening facility to Mount Gibson on or about 5 September 2011.

Train unloader design and construction delays at the Geraldton port as a consequence of the interface between the common user facilities and Karara Mining port infrastructure will restrict output from Extension Hill in the first half of the 2011/12 financial year. Mine and rail infrastructure are scheduled to be commissioned by the end of September 2011, however, Geraldton port infrastructure is now unlikely to be commissioned until late in the December 2011 quarter. Mount Gibson will batch rail transport Tallering Peak and Extension Hill ore to the Geraldton port, utilising Mount Gibson's existing Berth 4 facilities to mitigate, as far as practicable, the impact of any possible delays to the construction of the Geraldton port train unloader facility.

Mining operations are scheduled to be completed in 2016.

Mining commenced in the March quarter.

PRODUCTION SUMMARY FOR 12 MONTHS	UNIT	SEPT QTR 2010 '000	DEC QTR 2010 '000	MAR QTR 2011 '000	JUN QTR 2011 '000	YTD 2011 '000	YTD 2010 '000	*% INCR/ (DECR)*
Mining								
- Waste mined	*bcm*	-	-	280	364	**644**	**-**	*100%*
- Ore mined	*bcm*	-	-	21	79	**100**	**-**	*100%*
- Ore mined	*wmt*	-	-	63	237	**300**	**-**	*100%*

Expenditure on waste development at Extension Hill during the financial year was as follows:

		12 Months ended 30 June 2011	12 Months ended 30 June 2010
Waste mined	*mill bcm*	0.64	-
Ore mined	*mill bcm*	0.10	-
Ore mined	*mill wmt*	0.30	-
Deferred waste capitalised	*$ mill*	13.28	-
Amortisation of deferred waste	*$ mill*	2.40	-

Directors' Report (continued)

Review of Financial Condition

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

- Shareholders funds increased by:
  - Net profit after tax of $239,500,000; and
  - Holders of 3,000,000 options exercised their options resulting in $2,700,000 in equity funding for the Company.
- Acquisition of property, plant and equipment with an aggregate fair value of $14,576,000 that were financed by means of finance leases.
- Mine properties increased by $200,748,000 primarily due to deferred waste capitalised as a result of waste mined.
- Debt drawn of $85 million repaid in full.
- New Corporate Debt and Contingent Instrument Facility entered into – see note 14(c).

At 30 June 2011 the Group had:

- Cash on hand and term deposits of $387,000,000; and
- Equipment finance leases and hire purchase liabilities of $45,068,000.

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 Group and likely results of those operations would, in the opinion of the Directors, be uncertain and not in the best interest of the Company.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 11 August 2011, the directors of Mount Gibson declared a final dividend on ordinary shares in respect of the 2011 financial year. The total amount of the dividend is $43,302,828 which represents a fully franked dividend of 4.0 cents per share. The dividend has not been provided for in the 30 June 2011 financial statements.

On 8 August 2011, Mount Gibson advised ASX that previously, Mount Gibson had four customers who between them purchased 100% of life of mine production from Koolan Island. Following the demise of the benchmark pricing system, Mount Gibson sought to negotiate with each of its customers a revised pricing mechanism to apply in place of the now defunct benchmark price. As announced on 3 November 2010, revised pricing agreements were concluded with each of Shougang and APAC. However, despite lengthy good faith negotiations, no agreement on a revised pricing mechanism to apply under the long term ore sales agreements for Koolan Island was reached with the two remaining customers, CITIC and Marubeni, and so these agreements have now ceased to be binding on the parties. Mount Gibson's offtake agreements with Shougang and APAC provide that, where other customers' agreements cease to be binding, then production formerly allocated to those other customers becomes "available production" the subject of Shougang's and APAC's agreements. Consequently, Shougang and APAC have an obligation to purchase, between them, all life of mine production from Koolan Island.

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 Group 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**
110 cents	On or before 23 October 2012	2,000,000	2,000,000

Shares issued as a result of the exercise of options

During the financial year, 3,000,000 options were exercised to acquire fully paid ordinary shares in the Company at a weighted average exercise price of $0.90. Since the end of the financial year, no options have been exercised or forfeited.

DIVIDENDS

	Amount per security	Franked amount per security
Final dividend	4.0 cents	4.0 cents
Record date for determining entitlements to the dividend	26 August 2011	
Date the final dividend is payable	9 September 2011	

No dividends have been paid or declared for the year ended 30 June 2010.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has, during current or previous financial periods, 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 Group's business.

During the financial year, the Company has paid premiums in respect of a contract insuring all the Directors and Officers 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 $213,421. This amount has not been included in Directors' and Executives' remuneration.

REMUNERATION REPORT (AUDITED)

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

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, 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 21 November 2007 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 and NRGC.

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

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

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

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;
- superannuation;
- 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 Group 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 Group in meeting its objectives which include contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the Group;
- increase in market capitalisation of the Group; and
- 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 Group 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 2011 financial year

For the 2011 financial year, 100% of the STI cash bonus totalling $742,698 was approved and vested to Executive Directors and Senior Executives and was paid in July 2011.

Long-term Incentive ("LTI") for 2011 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 and 2009 AGM's.

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 301,117 were granted on 30 June 2011 by the Company to Mr Tonkin, Mr Rule and Mr Berg in respect of the 2011 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 Group 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 half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr 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 half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr 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 half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr 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.

The terms of other executives contracts are as per the Group's standard terms and conditions of employment and there are no contracted entitlements to cash bonuses, options or performance rights.

Details of Key Management Personnel

[i] Directors

L Tonkin	Managing Director
C Readhead	Chairman, Non-Executive Director
I Macliver	Non-Executive Director
A Jones	Non-Executive Director
Cao Z	Non-Executive Director
Chen Z	Non-Executive Director
Lee SH	Non-Executive Director
G Hill	Non-Executive Director
P Curry	Alternate Director to Mr Lee (from 11 February 2011)
A Rule	Chief Financial Officer and Alternate Director to Mr Tonkin
N Hamilton	Chairman, Non-Executive Director until 17 November 2010
P Knowles	Non-Executive Director until 17 November 2010
R Willcocks	Alternate Director to Mr Lee until 11 February 2011

[ii] Executives

D Quinlivan	Chief Operating Officer (until 22 March 2011)
D Berg	Company Secretary
R Mencel	General Manager – Tallering Peak / Koolan Island
R Richardson	General Manager – Koolan Island (until 16 November 2010)
G Hewitt	General Manager – Extension Hill (from 7 February 2011)

Remuneration of Key Management Personnel and highest paid executives for the year ended 30 June 2011

	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	76,314	-	-	6,868	-	-	**83,182**	0%
L Tonkin	770,772	2,228	361,038	24,473	-	230,936	**1,389,447**	46%
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%
Cao Z	87,156	-	-	7,844	-	-	**95,000**	0%
Chen Z	87,156	-	-	7,844	-	-	**95,000**	0%
P Knowles	33,410	-	-	3,007	-	-	**36,417**	0%
Lee SH	87,156	-	-	7,844	-	-	**95,000**	0%
G Hill	10,074	-	-	907	-	-	**10,981**	0%
P Curry	-	-	-	-	-	-	**-**	0%
R Willcocks	-	-	-	-	-	-	**-**	0%
A Rule	536,759	2,228	257,884	25,000	-	118,479	**940,350**	40%
Sub-total directors	**1,999,797**	**4,456**	**618,922**	**101,787**	**-**	**349,415**	**3,074,377**	
Executives								
D Quinlivan	574,625	2,228	-	-	-	-	**576,853**	0%
D Berg	244,674	2,228	123,776	25,000	-	57,624	**453,302**	40%
R Mencel	319,728	-	56,644	33,795	-	-	**410,167**	0%
G Hewitt	113,661	-	-	10,229	-	-	**123,890**	0%
R Richardson	143,314	-	-	11,362	-	-	**154,676**	0%
Sub-total executives	**1,396,002**	**4,456**	**180,420**	**80,386**	**-**	**57,624**	**1,718,888**	
Totals	**3,395,799**	**8,912**	**799,342**	**182,173**	**-**	**407,039**	**4,793,265**	

Options granted as part of remuneration for the year ended 30 June 2011

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

There were no options granted to directors and executives during the year ended 30 June 2011 and there are no options owned by employees outstanding at 30 June 2011.

Performance Rights granted as part of remuneration for the year ended 30 June 2011

	Grant Date	Number Granted	Value of Performance Rights Granted During the Year $	% of Remuneration
L Tonkin	30-Jun-11	146,375	223,412	16
A Rule	30-Jun-11	104,554	159,581	17
D Berg	30-Jun-11	50,188	76,602	17

Performance Rights granted above as part of Remuneration have been independently valued using the Black-Scholes methodology which considers the incorporation of the market based hurdles. The value per performance right at grant date is calculated using the following assumptions:

Accounting grant date	30-Jun-11
Share price at accounting grant date	$1.84
Risk free interest rate	4.55%
Volatility factor	100%

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("**TSR**") hurdle to be measured on 30 June 2013 and remeasured on 31 December 2013 for Performance Rights allocated on 30 June 2011.

Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 34 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%

Performance Rights vested

The following performance rights vested to the following directors and executives:

	Year ended 30 June 2011	Year ended 30 June 2010
L Tonkin	-	227,758
A Rule	-	168,324
D Berg	-	-
Total	**-**	**396,082**

No performance rights vested on 30 June 2011 as the TSR performance conditions were not met. 396,082 shares were issued on 2 July 2010 (2010: nil) pursuant to the vesting of performance rights during the year ended 30 June 2010. For these performance rights where the TSR performance conditions were not met at 30 June 2011, Mount Gibson's TSR performance relative ranking to the comparator group TSR will be remeasured at 31 December 2011 to determine if these performance rights vest.

Shares issued on exercise of options for the year ended 30 June 2011

There were no shares issued on exercise of options by the directors and executives during the year ended 30 June 2011 (2010: nil).

Remuneration of Key Management Personnel for the year ended 30 June 2010

	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	182,493	-	-	16,424	-	-	**198,917**	0%
L Tonkin	690,400	2,251	238,467	25,000	-	447,224	**1,403,342**	49%
C Readhead	101,750	-	-	-	-	-	**101,750**	0%
I Macliver	96,713	-	-	8,704	-	-	**105,417**	0%
A Jones	86,621	-	-	7,796	-	-	**94,417**	0%
Cao Z	79,893	-	-	7,190	-	-	**87,083**	0%
Chen Z	79,893	-	-	7,190	-	-	**87,083**	0%
P Knowles	29,052	-	-	2,615	-	-	**31,667**	0%
Lee SH	29,052	-	-	2,615	-	-	**31,667**	0%
R Willcocks	-	-	-	-	-	-	**-**	0%
A Rule	486,000	2,251	170,333	25,000	-	199,574	**883,158**	42%
Sub-total directors	**1,861,867**	**4,502**	**408,800**	**102,534**	**-**	**646,798**	**3,024,501**	
Executives								
D Quinlivan	647,288	2,251	-	-	-	-	**649,539**	0%
D Berg	225,028	2,251	81,933	20,253	-	32,113	**361,578**	32%
R Mencel	309,215	-	25,768	27,829	-	-	**362,812**	0%
R Richardson	265,772	-	22,148	23,919	-	-	**311,839**	0%
Sub-total executives	**1,447,303**	**4,502**	**129,849**	**72,001**	**-**	**32,113**	**1,685,768**	
Totals	**3,309,170**	**9,004**	**538,649**	**174,535**	**-**	**678,911**	**4,710,269**	

Directors' Report (continued)

Options granted as part of remuneration for the year ended 30 June 2010

There were no options granted to directors and executives during the year ended 30 June 2010 and there are no options outstanding at 30 June 2010.

Performance Rights granted as part of remuneration for the year ended 30 June 2010

	Grant Date	Number Granted	Value of Performance Rights Granted During the Year $	% of Remuneration
L Tonkin	30-Jun-10	150,114	130,824	9
A Rule	30-Jun-10	107,224	93,446	11
D Berg	30-Jun-10	51,467	44,853	12

Performance Rights granted above as part of Remuneration have been independently valued using the Black-Scholes methodology which considers the incorporation of the market based hurdles. The value per performance right at grant date is calculated using the following assumptions:

Accounting grant date	30-Jun-10
Share price at accounting grant date	$1.55
Risk free interest rate	4.34%
Volatility factor	100%

The vesting of these Performance Rights is subject to a relative Total Shareholder Return ("**TSR**") hurdle to be measured on 30 June 2012 and remeasured on 31 December 2012 for Performance Rights allocated on 30 June 2010.

Mount Gibson's TSR performance will be ranked relative to a comparator group consisting of 29 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 Group over the last 5 years:

		30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Net Profit after tax	***$'000***	239,500	132,395	42,618	113,344	47,765
Earnings per share	***$/share***	0.2214	0.1230	0.0456	0.1425	0.0753

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	15	2	1
N Hamilton[1]	5	-	-
L Tonkin	15	-	-
C Readhead	15	2	1
I Macliver	15	2	1
A Jones	15	2	1
Cao Z	10	-	-
Chen Z	15	-	-
P Knowles [2]	3	-	-
Lee SH	11	-	-
G Hill [3]	2	-	-
R Willcocks [4]	-	-	-
P Curry [5]	4	-	-
A Rule [6]	-	-	-

[1] Mr Hamilton was a non-executive director until 17 November 2010
[2] Mr Knowles was a non-executive director until 17 November 2010
[3] Mr Hill became a non-executive director on 20 May 2011
[4] Mr Willcocks was an alternate director until 11 February 2011
[5] Mr Curry became an alternate director on 11 February 2011
[6] Mr Rule did not attend any meetings as an alternate director during the year

DIRECTORS 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
L Tonkin	-	-	535,985
C Readhead	567,500	-	-
I Macliver	1,000,000	-	-
A Jones	-	-	-
Cao Z	-	-	-
Chen Z	-	-	-
Lee SH	-	-	-
P Curry	-	-	-
G Hill	-	-	-
A Rule	-	-	382,846

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group has developed Environmental Management Plans for its operations at Koolan Island, Tallering Peak, Extension Hill and the rail head at Rivudini and Perenjori. 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 Group 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

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 23 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 2011.

Signed in accordance with a resolution of the Directors.

C READHEAD
Chairman
Perth, 11 August 2011

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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 financial year ended 30 June 2011, 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 Buckingham
Partner
Perth
11 August 2011

GB:MB:MGI188

Consolidated Income Statement

For the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
CONTINUING OPERATIONS			
Sale of goods	2[a]	672,082	536,282
Other revenue	2[a]	21,147	18,996
TOTAL REVENUE		**693,229**	**555,278**
Cost of sales	2[d]	(325,094)	(357,544)
GROSS PROFIT		**368,135**	**197,734**
Other income	2[b]	79	26,747
Administration expenses	2[e]	(20,429)	(20,726)
Foreign exchange derivatives mark-to-market gain/(loss)		8,119	2,899
Exploration expenses		(20)	(105)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		**355,884**	**206,549**
Finance costs	2[c]	(12,996)	(18,241)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**342,888**	**188,308**
Income tax expense	3	(103,388)	(55,913)
NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**239,500**	**132,395**
Earnings per share (cents per share)			
• basic earnings per share	22	22.14	12.30
• diluted earnings per share	22	22.13	12.28

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	2011 $'000	2010 $'000
NET PROFIT FOR THE PERIOD AFTER INCOME TAX	**239,500**	**132,395**
OTHER COMPREHENSIVE INCOME		
Change in fair value of cash flow hedges	(28,066)	(3,495)
Transferred to revenue in Income Statement	24,910	17,024
Deferred income tax on cash flow hedges	489	(3,600)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(2,667)**	**9,929**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**236,833**	**142,324**

Consolidated Balance Sheet

As at 30 June 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	117,007	247,404
Term deposits	5	270,000	100,000
Trade and other receivables	6	22,249	33,979
Inventories	7	160,358	139,752
Prepayments		3,210	2,447
Derivative financial assets	8	386	3,273
TOTAL CURRENT ASSETS		**573,210**	**526,855**
NON-CURRENT ASSETS			
Property, plant and equipment	10	246,695	163,343
Deferred acquisition, exploration and evaluation	11	309	69,739
Mine properties	12	736,859	536,111
TOTAL NON-CURRENT ASSETS		**983,863**	**769,193**
TOTAL ASSETS		**1,557,073**	**1,296,048**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	99,556	97,297
Interest-bearing loans and borrowings	14	28,607	96,992
Derivative financial liabilities	15	63	1,808
Income tax payable	3	22,793	-
Provisions	16	4,348	3,328
TOTAL CURRENT LIABILITIES		**155,367**	**199,425**
NON-CURRENT LIABILITIES			
Provisions	16	24,228	19,104
Interest-bearing loans and borrowings	14	16,461	36,813
Deferred income tax liabilities	3	194,476	113,798
TOTAL NON-CURRENT LIABILITIES		**235,165**	**169,715**
TOTAL LIABILITIES		**390,532**	**369,140**
NET ASSETS		**1,166,541**	**926,908**
EQUITY			
Issued capital	17[a]	561,585	559,207
Retained earnings	19	585,718	346,218
Reserves	18	19,238	21,483
TOTAL EQUITY		**1,166,541**	**926,908**

Consolidated Cash Flow Statement

For the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		690,934	552,167
Payments to suppliers and employees		(459,203)	(368,850)
Interest paid		(9,323)	(14,233)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	4[b]	**222,408**	**169,084**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		19,364	11,161
Proceeds from sale of property, plant and equipment		56	4
Purchase of property, plant and equipment		(99,864)	(6,703)
Payment for term deposits		(170,000)	(100,000)
Proceeds from receipt of convertible notes		-	1,000
Payment for deferred exploration, evaluation and development expenditure		-	(9,704)
Payment for mine properties		(3,030)	(17,909)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(253,474)**	**(122,151)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		2,700	3,496
Proceeds from performance bonds		-	15,107
Repayment of lease liabilities		(15,329)	(13,656)
Repayment of borrowings		(85,000)	(20,000)
Payment of borrowing costs		(1,702)	(6,649)
NET CASH FLOWS PROVIDED BY / (USED IN) FINANCING ACTIVITIES		**(99,331)**	**(21,702)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(130,397)	25,231
Cash and cash equivalents at beginning of year		247,404	222,173
CASH AND CASH EQUIVALENTS AT END OF YEAR	4[a]	**117,007**	**247,404**

As set out in note 5, the Group had in addition to the Cash and Cash Equivalents above, $270,000,000 in term deposits at 30 June 2011.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	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 2009	**556,032**	**213,823**	**17,641**	**(3,823)**	**(3,192)**	**780,481**
Profit for the period	-	132,395	-	-	-	**132,395**
Other comprehensive income	-	-	-	9,929	-	**9,929**
Total comprehensive income for the year	**-**	**132,395**	**-**	**9,929**	**-**	**142,324**
Transactions with owners in their capacity as owners						
- Deferred income tax on capital raising cost	(321)	-	-	-	-	**(321)**
- Exercise of options	3,496	-	-	-	-	**3,496**
- Share-based payment	-	-	928	-	-	**928**
At 30 June 2010	**559,207**	**346,218**	**18,569**	**6,106**	**(3,192)**	**926,908**
At 1 July 2010	**559,207**	**346,218**	**18,569**	**6,106**	**(3,192)**	**926,908**
Profit for the period	-	239,500	-		-	**239,500**
Other comprehensive income				(2,667)		**(2,667)**
Total comprehensive income for the year	**-**	**239,500**	**-**	**(2,667)**	**-**	**236,833**
Transactions with owners in their capacity as owners						
- Deferred income tax on capital raising cost	(322)	-	-	-	-	**(322)**
- Exercise of options	2,700	-	-	-	-	**2,700**
- Share-based payment	-	-	422	-		**422**
At 30 June 2011	**561,585**	**585,718**	**18,991**	**3,439**	**(3,192)**	**1,166,541**

Notes to the Consolidated Financial Report

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

The consolidated financial statements of the Group, comprising the Company and the entities that it controlled during the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 11 August 2011.

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

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

(d) Compliance with IFRS

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

(e) New accounting standards and interpretations

From 1 July 2010 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2010. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

The following standards and interpretations have also been adopted from 1 July 2010:

- AASB 2009-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- Interpretation 19 *Extinguishing Financials Liabilities with Equity Instruments*

The Group has not elected to early adopt any new standards or amendments.

The adoptions of the above Standard or Interpretations did not have an impact on the financial statements or performance of the Group.

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 Group for the period ended 30 June 2011. These are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard shall be applied when AASB 9 is applied.	1 January 2013	1 July 2013

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	1 July 2011

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.	1 January 2012	1 July 2012

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard*	Application date for Group*
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amendments many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	1 July 2011
****	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.	1 January 2013	1 July 2013
****	Joint Arrangements	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly- controlled Entities – Non-monetary Contributions by Ventures. IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	1 July 2013
****	Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013

Reference	Title	Summary	Application date of standard*	Application date for Group*
****	Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013

* Designates the beginning of the applicable annual reporting period unless otherwise stated
** Only applicable to not-for-profit/public sector entities
*** Only applicable to entities that would fit in Tier 2 (Reduced Disclosure Requirements) category
**** The AASB has not issued this standard, which was finalised by the IASB in May 2011

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 Group will not be able to collect the debts. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency and default in payment. Any impairment is recognised in the income statement.

All sales revenue is invoiced and received in US$ 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 subject to minor adjustment 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 lesser of the hire purchase or finance lease term or useful life. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

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

Notes to the Consolidated Financial Report (continued)

(m) Rehabilitation costs

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

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

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

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

(n) Recoverable amount of assets

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

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

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

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 Group 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.

(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 Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services

Notes to the Consolidated Financial Report (continued)

(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. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings.

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

(r) Provisions

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

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

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

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

(s) Share-based payment transactions

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

Options

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

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

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

Performance rights

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

The cost of these performance rights is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model.

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

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

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

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

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

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

Notes to the Consolidated Financial Report (continued)

(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 future payments due to be settled in respect of services provided by employees up to the reporting date. Consideration is given to future wage and salary levels, experience of employee departures, and periods of service. Future payments are discounted using market yields at the reporting date on 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 Group 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 Group are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

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

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

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

(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.

Notes to the Consolidated Financial Report (continued)

(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.

(z) Derivative financial instruments and hedging

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

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.

Cash flow hedges – collars

In relation to foreign exchange collars 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 either directly in equity or the profit and loss depending on whether the exchange rate falls within the range of the collars. Any ineffective portion in recognised 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 forecast 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.

Cash flow hedges – lease liabilities

In relation to lease liabilities 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 either directly in equity or the profit and loss depending on the effectiveness of the hedge. Any ineffective portion in recognised 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 forecast 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.

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 Group

[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 Group 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 Group 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 Group's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The Group uses economically recoverable mineral resources (comprising proven and probable reserves) 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 Group 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 Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of 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 Group 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.

(viii)Recoverability of potential deferred income tax assets

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

(ix) Share-based payment transactions

The Group 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 accounting estimates and assumptions relating to 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	2011 $'000	2010 $'000
2. REVENUE AND EXPENSES			
[a] Revenue			
Sale of ore		647,172	519,258
Realised gain on foreign exchange hedges		24,910	17,024
		672,082	536,282
Other revenue			
Finance income – other persons / corporations		-	11,345
Interest income		21,147	7,651
		21,147	18,996
[b] Other income			
Arbitration settlement income		-	20,406
Realised gain on foreign exchange		33	9
Net gain on sale of plant and equipment		-	4
Net gain on foreign exchange		-	6,321
Other income		46	7
		79	26,747
[c] Finance costs			
Finance charges on loans		8,677	13,315
Finance charges payable under finance leases		3,563	4,199
		12,240	17,514
Unwinding of discount on rehabilitation provision		756	727
		12,996	18,241
[d] Cost of Sales			
Mining costs		309,622	254,309
Mining depreciation costs		22,641	23,131
Mining waste costs deferred	12	(310,861)	(259,866)
Amortisation of mining waste costs deferred	12	172,011	219,459
Amortisation of other mine properties	12	16,721	26,426
Preproduction expenditure capitalised		(3,771)	-
Crushing costs		26,498	18,005
Transport costs		38,063	35,473
Port costs		17,238	19,489
Royalties		46,019	37,457
Depreciation – excluding mining depreciation		7,974	8,947
Net ore inventory movement		(17,061)	(25,286)
		325,094	357,544
[e] Administration Expenses include:			
Depreciation		357	269
Share-based payments expense	21[a]	422	928
Net loss on sale of plant and equipment		9	-
Net foreign exchange loss		84	-
[f] Cost of sales and Administration expenses above include:			
Salaries, wages expense and other employee benefits		55,156	43,624
Operating lease rental – minimum lease payments		19,230	14,905

Notes to the Consolidated Financial Report (continued)

	2011 $'000	2010 $'000
3. INCOME TAX		
Major components of income tax expense for the years ended 30 June 2011 and 2010 are:		
Income Statement		
Current income tax		
Current income tax charge	22,793	-
Deferred income tax		
Relating to origination and reversal of temporary differences	80,595	55,913
Income tax expense reported in income statement	**103,388**	**55,913**
Statement of Changes in Equity		
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Capital raising costs	306	600
Remeasurement of foreign exchange contracts	(62)	2,815
Interest rate swap contracts	(161)	786
Deferred income tax (benefit)/liability reported in equity	83	4,201
Reconciliation of income tax expense		
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 2011 and 2010 is as follows:		
Accounting profit before income tax	342,888	188,308
• At the statutory income tax rate of 30% (2010: 30%)	102,866	56,492
• Temporary differences not brought to account as a deferred tax asset	-	-
• Expenditure not allowed for income tax purposes	132	283
• Other	390	(488)
• Investment allowance	-	(374)
Income tax expense	**103,388**	**55,913**
Effective income tax rate	30.2%	29.7%
Income tax expense reported in income statement	**103,388**	**55,913**

Notes to the Consolidated Financial Report (continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
CONSOLIDATED						
Accrued liabilities	(1,255)	(958)	-	-	(1,255)	(958)
Borrowing costs	-	(114)	-	-	-	(114)
Capital raising costs	(912)	(3,194)	-	-	(912)	(3,194)
Deferred income	-	-	44,246	57,338	44,246	57,338
Allowance for doubtful debts	-	-	-	-	-	-
Exploration expenditure	-	-	4,091	4,085	4,091	4,085
Foreign exchange contracts	(998)	(1,975)	3,516	3,628	2,518	1,653
Interest rate swaps	-	-	-	-	-	-
Interest receivable	-	-	1,278	702	1,278	702
Inventory	-	-	3,482	2,960	3,482	2,960
Lease liability	(1,559)	(1,965)	-	-	(1,559)	(1,965)
Mine properties	-	-	138,619	90,612	138,619	90,612
Prepaid expenditure	-	-	27	24	27	24
Property, plant and equipment	-	-	14,715	8,585	14,715	8,585
Provisions	(7,373)	(6,730)	-	-	(7,373)	(6,730)
Tax losses	(3,401)	(39,200)	-	-	(3,401)	(39,200)
Tax (assets) liabilities	(15,498)	(54,136)	209,974	167,934	194,476	113,798
Set off of tax	15,498	54,136	(15,498)	(54,136)	-	-
Net tax (assets) liabilities	**-**	**-**	**194,476**	**113,798**	**194,476**	**113,798**

Notes to the Consolidated Financial Report (continued)

Movement in temporary differences during the financial year ended 30 June 2011	Balance 1 July 2010 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2011 $'000
Accrued liabilities	(958)	(297)	-	(1,255)
Borrowing costs	(114)	114	-	-
Capital raising costs	(3,194)	1,976	306	(912)
Deferred income	57,338	(13,092)	-	44,246
Doubtful debts provision	-	-	-	-
Exploration expenditure	4,085	6	-	4,091
Foreign exchange contracts	1,653	927	(62)	2,518
Interest rate swaps	-	161	(161)	-
Interest receivable	702	576	-	1,278
Inventory	2,960	522	-	3,482
Lease liability	(1,965)	406	-	(1,559)
Mine properties	90,612	48,007	-	138,619
Prepaid expenditure	24	3	-	27
Property, plant and equipment	8,585	6,130	-	14,715
Provisions	(6,730)	(643)	-	(7,373)
Tax losses	(39,200)	35,799	-	(3,401)
	113,798	**80,595**	**83**	**194,476**

Movement in temporary differences during the financial year ended 30 June 2010	Balance 1 July 2009 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2010 $'000
Accrued liabilities	(204)	(754)	-	(958)
Borrowing costs	(560)	446	-	(114)
Capital raising costs	(6,184)	2,390	600	(3,194)
Deferred income	28,055	29,283	-	57,338
Doubtful debts provision	(4,574)	4,574	-	-
Exploration expenditure	4,113	(28)	-	4,085
Foreign exchange contracts	(7,743)	6,581	2,815	1,653
Interest rate swaps	(847)	61	786	-
Interest receivable	623	79	-	702
Inventory	1,636	1,324	-	2,960
Lease liability	(3,205)	1,240	-	(1,965)
Mine properties	75,595	15,017	-	90,612
Prepaid expenditure	22	2	-	24
Property, plant and equipment	10,217	(1,632)	-	8,585
Provisions	(6,238)	(492)	-	(6,730)
Tax losses	(37,022)	(2,178)	-	(39,200)
	53,684	**55,913**	**4,201**	**113,798**

Notes to the Consolidated Financial Report (continued)

	2011 $'000	2010 $'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	965
Tax losses	44	44
	1,009	1,009

4. CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Cash at bank and in hand	21,911	47,497
Short-term deposits	95,096	199,907
	117,007	**247,404**

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:

	2011 $'000	2010 $'000
Cash at bank and in hand	21,911	47,497
Short-term deposits	95,096	199,907
	117,007	247,404

[b] Reconciliation of the net profit after tax to the net cash flows from operations

	2011 $'000	2010 $'000
Net profit after tax	239,500	132,395
Adjustments for:		
Depreciation of non-current assets	30,972	32,347
Amortisation of deferred waste	172,011	219,459
Amortisation of other mine properties	16,721	26,426
Net profit on disposal of property, plant and equipment	9	(4)
Net mark-to-market differences on derivatives	(8,119)	(2,899)
Interest received	(21,147)	(11,345)
Exploration expenses written off	20	105
Share based payments	422	928
Unwinding of rehabilitation provision	756	727
Stock obsolescence	194	-
Borrowing costs	4,310	4,871
Capitalised expenses	(3,770)	(4,648)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	13,513	(17,572)
(Increase) in inventory	(20,801)	(27,992)
(Increase) in prepayments and deposits	(285)	(270)
(Increase) in capitalised deferred waste	(310,861)	(259,866)
Increase in creditors and accruals	4,329	19,427
Increase/(decrease) in GST paid	(42)	71
Increase in current income tax liabilities	22,793	-
Increase in deferred income tax liabilities	80,595	55,912
Increase in employee benefits	1,288	1,012
Net Cash Flow from Operating Activities	**222,408**	**169,084**

Notes to the Consolidated Financial Report (continued)

[c] Non-cash financing activities

During the financial year, the Group acquired property, plant and equipment with an aggregate fair value of $14,576,372 (2010: $4,564,803) by means of finance leases and hire purchase agreements. During the financial year, the Group disposed of property, plant and equipment with an aggregate fair value of $48,398 (2010: $nil) that were financed by means of finance leases.

	Notes	2011 $'000	2010 $'000
5. TERM DEPOSITS			
Current			
Term deposits		270,000	100,000
		270,000	**100,000**

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

	Notes	2011 $'000	2010 $'000
6. TRADE AND OTHER RECEIVABLES			
Current			
Trade debtors	[a][i]	7,398	26,573
Sundry debtors	[a][ii]	10,057	3,501
Other receivables		4,794	3,905
		22,249	**33,979**

[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.

[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 2011, trade debtors of nil (2010: $ $nil) in the Group were impaired.

At 30 June 2011, trade debtors of $262,435 (2010: $354,588) in the Group were past due but not impaired. These relate to a number of customers for whom there is no recent history of default 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	2011 $'000	2010 $'000
Movements in the allowance for impairment were as follows:			
Balance at the beginning of the year		-	15,247
Charge for the year		-	-
Amounts written off		-	(15,247)
Balance at the end of the year		-	-
The ageing of debtors past due but not impaired is as follows:			
Less than 30 days overdue		-	374
Between 30 and 60 days overdue		428	36
Between 60 and 90 days overdue		20	-
Greater than 90 days overdue		(185)	(55)
		263	355

Notes to the Consolidated Financial Report (continued)

7. INVENTORIES

	2011 $'000	2010 $'000
Consumables – at cost	23,164	19,425
Provision for Stock Obsolescence	(194)	-
Ore – at cost	137,388	120,327
	160,358	**139,752**

8. DERIVATIVE FINANCIAL ASSETS

Current

Foreign currency forward contracts and options	30[b][i]	386	3,273
		386	**3,273**

9. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of Equity Interest Held by the Group 2011 %	2010 %
Mount Gibson Mining Limited	Australia	100	100
Geraldton Bulk Handling Pty Ltd	Australia	100	100
Aztec Resources Limited	Australia	100	100
• Koolan Iron Ore Pty Ltd	Australia	100	100
• Koolan Shipping Pty Ltd	Australia	100	100
• Brockman Minerals Pty Ltd	Australia	100	100

Entities subject to Class Order relief

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

Consolidated Income Statement of the Closed Group

	2011 $'000	2010 $'000
CONTINUING OPERATIONS		
Sale of goods	672,082	536,282
Other revenue	21,134	18,985
TOTAL REVENUE	693,216	555,267
Cost of sales	(314,422)	(343,618)
GROSS PROFIT	378,794	211,649
Other income	79	26,746
Administration expenses	(20,428)	(20,723)
Foreign exchange derivatives mark-to-market gain/(loss)	8,119	2,899
Exploration expenses	(20)	(120)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS	366,544	220,451
Finance costs	(12,741)	(17,915)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX	353,803	202,536
Income tax expense	(108,179)	(60,181)
NET PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY	245,624	142,355

Notes to the Consolidated Financial Report (continued)

Consolidated Balance Sheet of the Closed Group

	2011 $'000	2010 $'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	116,082	246,404
Term deposits	270,000	100,000
Trade and other receivables	21,365	32,984
Inventories	160,358	139,752
Prepayments	3,183	498
Derivative financial assets	386	3,273
TOTAL CURRENT ASSETS	**571,374**	**522,911**
NON-CURRENT ASSETS		
Other receivables	32,561	14,212
Property, plant and equipment	244,280	160,360
Deferred acquisition, exploration, evaluation and development costs	309	69,739
Mine properties	736,768	536,020
TOTAL NON-CURRENT ASSETS	**1,013,918**	**780,331**
TOTAL ASSETS	**1,585,292**	**1,303,242**
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	96,492	82,884
Interest-bearing loans and borrowings	28,607	95,097
Derivative financial liabilities	63	1,808
Income tax payable	22,793	-
Provisions	4,256	3,232
TOTAL CURRENT LIABILITIES	**152,211**	**183,021**
NON-CURRENT LIABILITIES		
Provisions	24,217	19,099
Interest-bearing loans and borrowings	16,461	36,813
Deferred income tax liabilities	196,122	113,785
TOTAL NON-CURRENT LIABILITIES	**236,800**	**169,697**
TOTAL LIABILITIES	**389,011**	**352,718**
NET ASSETS	**1,196,281**	**950,524**
EQUITY		
Issued capital	561,585	559,207
Retained earnings	615,458	369,834
Reserves	19,238	21,483
TOTAL EQUITY	**1,196,281**	**950,524**

10. PROPERTY, PLANT AND EQUIPMENT

	2011 $'000	2010 $'000
Freehold–land - at cost	631	5
Plant and equipment – at cost	133,309	94,018
Accumulated depreciation	(41,398)	(32,673)
	91,911	61,345
Plant and equipment under lease – at cost	116,090	101,789
Accumulated depreciation	(63,814)	(46,241)
	52,276	55,548
Buildings – at cost	60,182	56,703
Accumulated depreciation	(23,352)	(19,079)
	36,830	37,624
Buildings under lease – at cost	522	522
Accumulated depreciation	(450)	(418)
	72	104
Capital works in progress – at cost	64,975	8,717
Total property, plant and equipment		
At cost	375,709	261,754
Total accumulated depreciation	(129,014)	(98,411)
	246,695	**163,343**

[a] Assets pledged as security

The value of assets pledged as security are:

	2011 $'000	2010 $'000
Land	631	5
Plant and equipment	91,911	61,345
Plant and equipment under lease	52,276	55,548
Buildings	36,830	37,624
Buildings under lease	72	104
Capital work in progress	64,975	8,717
	246,695	163,343

Notes to the Consolidated Financial Report (continued)

10. 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:

	2011 $'000	2010 $'000
Plant and equipment		
Carrying amount at the beginning of the year	61,345	65,530
Additions	39,301	4,913
Transfers	201	2,137
Disposals	(17)	-
Depreciation expense	(8,868)	(11,152)
Depreciation capitalised	(51)	(83)
Carrying amount at the end of the year	91,911	61,345
Plant and equipment under lease		
Carrying amount at the beginning of the year	55,548	65,902
Additions	14,576	4,565
Transfers	-	(176)
Disposals	(48)	(48)
Depreciation expense	(17,800)	(14,695)
Carrying amount at the end of the year	52,276	55,548
Buildings		
Carrying amount at the beginning of the year	37,624	43,154
Additions	3,440	284
Transfers	38	637
Disposals	-	-
Depreciation expense	(4,272)	(6,451)
Carrying amount at the end of the year	36,830	37,624
Buildings under lease		
Carrying amount at the beginning of the year	104	153
Depreciation expense	(32)	(49)
Carrying amount at the end of the year	72	104
Capital works in progress		
Carrying amount at the beginning of the year	8,717	9,761
Additions	56,497	1,554
Transfers	(239)	(2,598)
Carrying amount at the end of the year	64,975	8,717

Notes to the Consolidated Financial Report (continued)

	Notes	2011 $'000	2010 $'000
11. 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		-	64,438
Koolan Island		261	5,301
Other		48	-
		309	**69,739**
Reconciliation			
Carrying amount at beginning of the year		69,739	53,784
Additions		166	16,060
Transferred to mine properties		(69,542)	-
Exploration expenditure written off		(54)	(105)
Carrying amount at the end of the year		309	69,739
12. MINE PROPERTIES			
Mine development expenditure		1,637,213	1,247,733
Accumulated amortisation		(900,354)	(711,622)
		736,859	**536,111**
Reconciliation			
Carrying amount at beginning of the year		536,111	503,839
Additions		9,077	18,291
Transferred from deferred acquisition, exploration, evaluation and development costs		69,542	-
Deferred waste capitalised during the year	2[d]	310,861	259,866
Amortisation expensed – deferred waste	2[d]	(172,011)	(219,459)
Amortisation expensed – other	2[d]	(16,721)	(26,426)
Carrying amount at the end of the year		736,859	536,111
13. TRADE AND OTHER PAYABLES			
Current			
Trade creditors	[a]	32,188	29,144
Accruals and other payables	[a]	67,368	68,153
		99,556	**97,297**

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

Notes to the Consolidated Financial Report (continued)

	Notes	2011 $'000	2010 $'000
14. INTEREST-BEARING LOANS AND BORROWINGS			
Current			
Lease liability	[a]	2,231	5,456
Hire purchase facility	[b]	26,376	9,641
Corporate Debt	[c]	-	85,000
Capitalised corporate debt facility costs		-	(3,105)
		28,607	**96,992**
Non-Current			
Lease liability	[a]	2,965	1,094
Hire purchase facility	[b]	13,496	35,719
		16,461	**36,813**

Financing facilities available

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

	Notes	2011 $'000	2010 $'000
Total facilities:			
• Finance leases	[a]	5,196	6,550
• Hire purchase facility	[b]	39,872	45,360
• Contingent Instrument facility	[c]	65,000	65,000
• Corporate Debt	[c]	50,000	85,000
		160,068	**201,910**
Facilities used at reporting date:			
• Finance leases		5,196	6,550
• Hire purchase facility		39,872	45,360
• Contingent Instrument facility		55,082	55,338
• Corporate Debt		-	85,000
		100,150	**192,248**
Facilities unused at reporting date:			
• Finance leases		-	-
• Hire purchase facility		-	-
• Contingent Instrument facility		9,918	9,662
• Corporate Debt		50,000	-
		59,918	**9,662**

Terms and conditions relating to the above financial facilities:

[a] **Finance Lease Facility**

Finance leases are repayable monthly with final instalments due in May 2014. Interest is charged at an average rate of 8.89%. 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 May 2016. Interest is charged at an average rate of 7.67%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from the Company. This facility is drawn and repayable in US$ for Komatsu and A$ for NAB.

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

On 9 May 2011 the Company entered into a Facility Agreement for a $115,000,000 finance facility which expires on 30 June 2014 consisting of:

- Senior debt facility of $50,000,000 repayable as follows:
  - $25,000,000 on 31 December 2013; and
  - $25,000,000 on 30 June 2014.
- Contingent Instrument facility of $65,000,000 (including guarantees, performance bonds).

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.

The previous Corporate Debt and Contingent Instrument facility of $170,000,000 was repaid in full and cancelled during the year.

Notes to the Consolidated Financial Report (continued)

	Notes	2011 $'000	2010 $'000
15. DERIVATIVE FINANCIAL LIABILITIES			
Current			
Foreign currency forward contracts and options	30[b][i]	63	1,808
		63	**1,808**
16. PROVISIONS			
Current			
Employee benefits		4,248	3,228
Road resealing		100	100
		4,348	**3,328**
Non-Current			
Employee benefits		562	194
Decommissioning rehabilitation		23,666	18,910
		24,228	**19,104**
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		18,910	18,183
Provision for period		4,000	-
Unwinding of discount on rehabilitation provision		756	727
Carrying amount at end of the year		23,666	18,910

This provision relates to the forecast cost of decommissioning and rehabilitation on closure of Tallering Peak, Koolan Island and Extension Hill mines.

	2011 $'000	2010 $'000
17. ISSUED CAPITAL		
[a] Ordinary shares		
Issued and fully paid	**561,585**	**559,207**

	Notes	2011 Number of Shares	2011 $'000	2010 Number of Shares	2010 $'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		1,079,174,611	559,207	1,075,228,611	556,032
Exercise of options		3,000,000	2,700	3,946,000	3,496
Vesting of performance rights		396,082	-	-	-
Deferred income tax on capital raising cost		-	(322)	-	(321)
End of the financial year		**1,082,570,693**	**561,585**	**1,079,174,611**	**559,207**

[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 30 June 2011 there were 2,000,000 options on issue (2010: 5,000,000) – see Note 21(b).

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

[e] Performance rights

As at 30 June 2011 there were 1,102,599 performance rights on issue (2010: 801,482) – see Note 21(c).

Notes to the Consolidated Financial Report (continued)

	Notes	2011 $'000	2010 $'000
18. RESERVES			
Option premium reserve	[a]	18,991	18,569
Net unrealised gains/(losses) reserve	[b]	3,439	6,106
Other reserves	[c]	(3,192)	(3,192)
		19,238	**21,483**

[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.

		2011 $'000	2010 $'000
Balance at the beginning of the year		18,569	17,641
Share based payments		422	928
Balance at the end of the year		18,991	18,569

[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.

		2011 $'000	2010 $'000
Balance at the beginning of the year		6,106	(3,823)
Net gains/(losses) on cash flow hedges		(3,156)	13,529
Deferred income tax on cash flow hedges		489	(3,600)
Balance at the end of the year		3,439	6,106

[c] Other reserves

		2011 $'000	2010 $'000
Consolidation reserve		(3,192)	(3,192)
		(3,192)	(3,192)

		2011 $'000	2010 $'000
19. RETAINED EARNINGS			
Balance at the beginning of the year		346,218	213,823
Net profit attributable to members of the Company		239,500	132,395
Balance at the end of the year		**585,718**	**346,218**

Notes to the Consolidated Financial Report (continued)

	Notes	2011 $'000	2010 $'000
20. EXPENDITURE COMMITMENTS			
[a] Exploration Expenditure Commitments	[i]		
Minimum obligations not provided for in the financial report and are payable:			
• Not later than one year		735	978
• Later than one year but not later than five years		2,013	2,249
• Later than five years		3,148	3,655
		5,896	**6,882**
[b] Operating Lease Commitments	[ii]		
Minimum lease payments			
• Not later than one year		7,953	7,246
• Later than one year but not later than five years		2,047	3,238
		10,000	**10,484**
[c] Finance Lease and Hire Purchase Commitments	[iii]		
Minimum lease payments			
• Not later than one year		31,142	18,599
• Later than one year but not later than five years		18,265	39,184
Total minimum lease payments		49,407	57,783
Future finance charges		(4,339)	(5,873)
		45,068	**51,910**
Total lease liability accrued for:			
Current			
Finance leases and hire purchase facility		28,607	15,097
Non-Current			
Finance leases and hire purchase facility		16,461	36,813
		45,068	**51,910**
[d] Property, plant and equipment commitments	[iv]		
Commitments contracted for at balance date but not recognised as liabilities			
• Not later than one year		6,864	43,427
• Later than one year but not later than five years		-	-
		6,864	**43,427**

[i] In order to maintain current rights to explore and mine the tenements at Tallering Peak, Koolan Island, and Extension Hill the Group 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 4.2 years.

[iii] Finance leases and hire purchases have an average term of 4.3 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 8.89 % and 7.67 % respectively (2010: 8.92% and 7.61% respectively). Secured lease liabilities are secured by a charge over the leased assets.

[iv] The Group had contractual commitments to purchase property, plant and equipment principally relating to the construction and development of the Extension Hill project and Koolan replacement fleet of $6,863,888 (2010:$43,426,838).

Notes to the Consolidated Financial Report (continued)

	Notes	2011 $'000	2010 $'000
21. SHARE-BASED PAYMENT PLANS			
(a) Recognised share-based payment expenses			
Expense arising from equity-settled share-based payment transactions	2[e]	422	928

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2011 and 2010.

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

Exercise Price	Vesting date / Exercise Period	2011 Number	2010 Number
90 cents	Vested 24 Oct 2008 – exercise on or before 23 Oct 2011	-	3,000,000
110 cents	Vested 24 Oct 2010 – exercise on or before 23 Oct 2012	2,000,000	2,000,000
		2,000,000	**5,000,000**

The remaining contractual life for the options on issue as at 30 June 2011 is between 1 and 2 years (2010: 1 and 3 years).

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

	2011		2010	
	No. of Options	Weighted average exercise price (cents)	No. of Options	Weighted average exercise price (cents)
Balance at beginning of year	5,000,000	98.0	15,771,000	183.7
- granted and issued	-	-	-	-
- forfeited	-	-	(6,900,000)	299.0
- exercised	(3,000,000)	90.0	(3,871,000)	88.8
Balance at year end	**2,000,000**	**110.0**	**5,000,000**	**98.0**
Exercisable at year end	**2,000,000**	**110.0**	**3,000,000**	**90.0**

(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.

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

	2011 No. of Performance Rights	2010 No. of Performance Rights
Balance at beginning of year	801,482	888,759
- granted and issued	301,117	308,805
- vested	-	(396,082)
Balance at year end	**1,102,599**	**801,482**

Notes to the Consolidated Financial Report (continued)

22. EARNINGS PER SHARE

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

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

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

	2011 $'000	2010 $'000
Profits used in calculating basic and diluted earnings per share	239,500	132,395

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,081,674,803	1,076,540,422
Effect of dilution		
- Share options	804,348	1,838,710
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,082,479,151	1,078,379,132

Conversions, calls, subscriptions or issues after 30 June 2011

Since the end of the financial year no options have been converted to ordinary shares and no shares (2010: on 1 July 2010, 396,082 shares) were issued upon vesting of performance rights granted by the Company. 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.

23. DIVIDENDS PAID AND PROPOSED

On 11 August 2011, the directors of Mount Gibson declared a final dividend on ordinary shares in respect of the 2011 financial year. The total amount of the dividend is $43,302,828 which represents a fully franked dividend of 4.0 cents per share. The dividend has not been provided for in the 30 June 2011 financial statements. The record date for determining entitlements to the final dividend is 26 August 2011 and the date the final dividend is payable is 9 September 2011.

Apart from as set out above, no other amounts have been paid, declared or recommended by the Company by way of dividend since 1 July 2010 (2010: nil).

24. CONTINGENT LIABILITIES

1. The Corporate Debt banks have provided the Group with performance bonds totalling $55,082,222 (2010: $55,338,465). 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 a contractor in relation to a contract for the design and construction of the crusher at Extension Hill. The contractor 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 the contractor for breach of contract. The precise quantum of MGM's claim has not yet been established but is expected to exceed $1,000,000.
3. Legal proceedings have been initiated against MGM by a contractor in relation to the contract for the realignment of the Great Northern Highway at Extension Hill. The contractor is seeking that MGM pay it the disputed sum of either $2,765,933 or $4,773,670 for breach of contract. MGM denies the claim and will vigorously defend it.
4. A dispute has arisen between MGM and a contractor in relation to the contract for the upgrade of the road between Perenjori and Extension Hill. The contractor is seeking that MGM pay it the disputed sum and it is expected that legal proceedings will shortly be commenced. Whilst the precise quantum of the amount claimed and the basis for the claim is not yet known, it is anticipated to be in the region of $4,500,000.

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

[a] Compensation of Key Management Personnel

	2011 $	2010 $
Short-term	4,204,053	3,856,823
Post employment	182,173	174,535
Share-based payment	407,039	678,911
	4,793,265	4,710,269

[b] Option holdings of Key Management Personnel

30 June 2011	Balance at Beginning of Period 1 July 2010	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2011	Vested at 30 June 2011 Total	Not Exercisable	Exercisable
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	2,000,000	-	-	(2,000,000)	-	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
Cao Z	-	-	-	-	-	-	-	-
Chen Z	-	-	-	-	-	-	-	-
P Knowles	-	-	-	-	-	-	-	-
Lee SH	-	-	-	-	-	-	-	-
G Hill	-	-	-	-	-	-	-	-
R Willcocks	-	-	-	-	-	-	-	-
P Curry	-	-	-	-	-	-	-	-
A Rule	-	-	-	-	-	-	-	-
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
D Berg	-	-	-	-	-	-	-	-
R Mencel	-	-	-	-	-	-	-	-
G Hewitt	-	-	-	-	-	-	-	-
R Richardson	-	-	-	-	-	-	-	-
Total	2,000,000	-	-	(2,000,000)	-	-	-	-

30 June 2010	Balance at Beginning of Period 1 July 2009	Granted as Remuneration	Options Exercised	Net Change	Balance at End of Period 30 June 2010	Vested at 30 June 2010 Total	Not Exercisable	Exercisable
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	5,000,000	-	-	(3,000,000)	2,000,000	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
Cao Z	-	-	-	-	-	-	-	-
Chen Z	-	-	-	-	-	-	-	-
P Knowles	-	-	-	-	-	-	-	-
Lee SH	-	-	-	-	-	-	-	-
R Willcocks	-	-	-	-	-	-	-	-
A Rule	2,000,000	-	-	(2,000,000)	-	-	-	-
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
D Berg	-	-	-	-	-	-	-	-
R Mencel	350,000	-	-	(350,000)	-	-	-	-
R Richardson	-	-	-	-	-	-	-	-
Total	7,350,000	-	-	(5,350,000)	2,000,000	-	-	-

Notes to the Consolidated Financial Report (continued)

[c] Shareholding of Key Management Personnel

30 June 2011	Balance 1 July 2010 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2011 Ord
Directors					
N Hamilton	185,000	-	-	(185,000)	-
L Tonkin	-	227,758	-	(227,758)	-
C Readhead	567,500	-	-	-	567,500
I Macliver	1,000,000	-	-	-	1,000,000
A Jones	100,000	-	-	(100,000)	-
Cao Z	-	-	-	-	-
Chen Z	-	-	-	-	-
P Knowles	-	-	-	-	-
Lee SH	-	-	-	-	-
G Hill	-	-	-	-	-
R Willcocks	-	-	-	-	-
P Curry	-	-	-	-	-
A Rule	50,000	168,324	-	(218,324)	-
Executives					
D Quinlivan	-	-	-	-	-
D Berg	-	-	-	-	-
R Mencel	-	-	-	-	-
R Richardson	-	-	-	-	-
G Hewitt	-	-	-	-	-
Total	1,902,500	396,082	-	(731,082)	1,567,500

30 June 2010	Balance 1 July 2009 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2010 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
Cao Z	-	-	-	-	-
Chen Z	-	-	-	-	-
P Knowles	-	-	-	-	-
Lee SH	-	-	-	-	-
R Willcocks	50,000	-	-	(50,000)	-
A Rule	50,000	-	-	-	50,000
Executives					
D Quinlivan	-	-	-	-	-
D Berg	-	-	-	-	-
R Mencel					
R Richardson	-	-	-	-	-
	1,952,500	-	-	(50,000)	1,902,500

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)

[d] Performance Rights holding by Key Management Personnel

30 June 2011	Balance 1 July 2010	Granted as Remuneration	Vested during year	Balance 30 June 2011
Directors				
N Hamilton	-	-	-	-
L Tonkin	389,610	146,375	-	535,985
C Readhead	-	-	-	-
I Macliver	-	-	-	-
A Jones	-	-	-	-
Cao Z	-	-	-	-
Chen Z	-	-	-	-
P Knowles	-	-	-	-
Lee SH	-	-	-	-
R Willcocks	-	-	-	-
A Rule	278,292	104,554	-	382,846
Executives				
D Quinlivan	-	-	-	-
D Berg	133,580	50,188	-	183,768
R Mencel	-	-	-	-
R Richardson	-	-	-	-
Total	801,482	301,117	-	1,102,599

30 June 2010	Balance 1 July 2009	Granted as Remuneration	Vested during year	Balance 30 June 2010
Directors				
N Hamilton	-	-	-	-
L Tonkin	467,254	150,114	(227,758)	389,610
C Readhead	-	-	-	-
I Macliver	-	-	-	-
A Jones	-	-	-	-
Cao Z	-	-	-	-
Chen Z	-	-	-	-
P Knowles	-	-	-	-
Lee SH	-	-	-	-
R Willcocks	-	-	-	-
A Rule	339,392	107,224	(168,324)	278,292
Executives				
D Quinlivan	-	-	-	-
D Berg	82,113	51,467	-	133,580
R Mencel	-	-	-	-
R Richardson	-	-	-	-
Total	888,759	308,805	(396,082)	801,482

[e] Loans to Specified Key Management Personnel

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

[f] Other Transactions and Balances with Key Management Personnel

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

26. RELATED PARTY DISCLOSURE

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Director-related entity transactions

Sales

During all or part of the year, Mr Cao and Mr Chen were directors of Shougang Concord and Mr Lee and Mr Curry were directors of APAC.

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

- Sold 719,071 WMT (2010: 745,863 WMT) of iron ore to APAC; and
- Sold 2,875,589 WMT (2010: 2,724,753 WMT) of iron ore to Shougang Concord.

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

	2011 $'000	2010 $'000
Assets and Liabilities		
Current Assets		
Trade receivables - Sino Chance Trading Limited	431	16,346
Trade receivables - Shougang Concord	4,383	4,303
Total trade receivables	4,814	20,649
Total Assets	**4,814**	**20,649**
Current Liabilities		
Trade payables - Shougang Concord	2	8
Total trade payables	2	8
Total Liabilities	**2**	**8**
Revenues and Expenses		
Sale of goods - APAC	79,681	59,974
Sale of goods - Shougang Concord	355,676	215,011
Total Sale of Goods	**435,357**	**274,985**

Apart from the above, there are no director-related entity transactions other than those specified in Note 25.

27. AUDITOR'S REMUNERATION

	2011 $	2010 $
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	213,410	213,775
▪ Other services in relation to the entity and any other entity in the consolidated entity	-	-
	213,410	**213,775**

28. SEGMENT INFORMATION

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

The reportable segments are based on aggregated operating segments determined by the similarity of activity type, as these are the sources of the Group's major risks and have the most effect on the rates of return.

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

Notes to the Consolidated Financial Report (continued)

During the year ended 30 June 2011, revenue received from the sale of iron ore was comprised of the following buyers who each on a proportionate bases equated to greater than 10% of total sales for the period:

Customer	2011 $'000
# 1	355,676
# 2	88,062
# 3	79,682
# 4	77,238
Other	46,514
	647,172

During the year ended 30 June 2010, revenue received from the sale of iron ore was comprised of the following buyers who each on a proportionate bases equated to greater than 10% of total sales for the period:

Customer	2010 $'000
# 1	215,003
# 2	98,912
# 3	91,206
# 4	59,974
# 5	53,703
Other	460
	519,258

Revenue from external customers by geographical location is based on location of iron ore shipped. All iron ore have been shipped to China during the 2010 and 2011 financial years.

The Group considers the segment assets and liabilities to be consistent with those disclosed in the financial statements.

29. EVENTS AFTER THE BALANCE SHEET DATE

On 11 August 2011, the directors of Mount Gibson declared a final dividend on ordinary shares in respect of the 2011 financial year. The total amount of the dividend is $43,302,828 which represents a fully franked dividend of 4.0 cents per share. The dividend has not been provided for in the 30 June 2011 financial statements.

On 8 August 2011, Mount Gibson advised ASX that previously, Mount Gibson had four customers who between them purchased 100% of life of mine production from Koolan Island. Following the demise of the benchmark pricing system, Mount Gibson sought to negotiate with each of its customers a revised pricing mechanism to apply in place of the now defunct benchmark price. As announced on 3 November 2010, revised pricing agreements were concluded with each of Shougang and APAC. However, despite lengthy good faith negotiations, no agreement on a revised pricing mechanism to apply under the long term ore sales agreements for Koolan Island was reached with the two remaining customers, CITIC and Marubeni, and so these agreements have now ceased to be binding on the parties. Mount Gibson's offtake agreements with Shougang and APAC provide that, where other customers' agreements cease to be binding, then production formerly allocated to those other customers becomes "available production" the subject of Shougang's and APAC's agreements. Consequently, Shougang and APAC have an obligation to purchase, between them, all life of mine production from Koolan Island.

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 Group that require adjustment of or disclosure in this report.

Notes to the Consolidated Financial Report (continued)

30. FINANCIAL INSTRUMENTS

[a] Financial risk management objectives

The Group'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 Group's operations.

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

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

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, commodity price risk and liquidity risk. The board reviews and agrees management's recommended policies for managing each of these risks and they are summarised below.

[b] Foreign currency risk

The Group is exposed to the risk of adverse movement in the A$ compared to the US$ as its iron ore sales receipts are denominated in US$. The Group uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US$ 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 Group recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Group applies hedge accounting to forward foreign currency contracts and collar option contracts and US$ finance leases that meet the criteria of cash flow hedges.

During the period from 1 July 2010 to 30 June 2011 the Group delivered into US dollar foreign exchange forward contracts and collar options totalling US$206,000,000 at a weighted average A$ rate of 0.8551.

At 30 June 2011 the foreign exchange hedge book totalling US$45,000,000 is made up as follows:

> Forward contract profile totalling US$45,000,000 due in the 6 months ending 31 December 2011 - weighted average A$ rate of 1.0591.

As at 30 June 2011, the mark-to-market gain on the total outstanding US dollar foreign exchange hedge book of US$45,000,000 was A$323,334.

The hire purchase liabilities for the mining equipment at Koolan are denominated in US$. This non-derivative liability has been designated as a hedging instrument in a cash flow hedge to manage foreign exchange risk on highly probable US$ denominated sales with effect from 1 November 2009.

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

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

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

Notes to the Consolidated Financial Report (continued)

[i] Foreign exchange contracts - cash flow hedges

The Group has entered into forward exchange contracts and foreign exchange option contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in US$.

At balance date the following foreign exchange contracts were outstanding:

	2011				2010			
	Average Contract Rate	US$ $'000	Contract Value A$ $'000	Fair Value A$ $'000	Average Contract Rate	US$ $'000	Contract Value A$ $'000	Fair Value A$ $'000
Forward Exchange Contracts								
- within one year	1.0591	45,000	42,490	323	0.8422	86,000	102,116	232
Collar Option								
- within one year	-	-	-	-	0.7700	120,000	155,844	1,233
call strike price 0.86								
put strike price 0.77								
Total	**1.0591**	**45,000**	**42,490**	**323**	**0.8001**	**206,000**	**257,960**	**1,465**

		2011 $'000	2010 $'000
Current assets	(note 8)	386	3,273
Current liabilities	(note 15)	(63)	(1,808)
Total forward exchange contracts and collar options		323	1,465
Current liabilities (hire purchase US$ facility – note 14)		(20,299)	(5,972)
Non-current liabilities (hire purchase US$ facility – note 14)		-	(25,587)
		(19,976)	(30,094)

Movement in forward exchange contract cash flow hedge reserve:

	2011 $'000	2010 $'000
Opening balance	7,305	(2,843)
Change in fair value of cash flow hedges	(33,127)	(8,112)
Transferred from / (to) revenue in Income Statement	24,910	17,024
Transferred from / (to) derivatives in Income Statement	1,235	1,236
Closing balance	323	7,305
Cash flow hedge ineffectiveness recognised immediately in profit and loss	1,235	1,236

Notes to the Consolidated Financial Report (continued)

[ii] Foreign currency sensitivity

The following table details the effect on profit after tax and other comprehensive income after tax of a 10% change in the Australian dollar against the US$ from the spot rate at 30 June 2011 and 30 June 2010.

	Net Profit		Other Comprehensive Income	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
10% appreciation in the A$ spot rate with all other variables held constant	299	396	2,869	12,836
10% depreciation in the A$ spot rate with all other variables held constant	(366)	(484)	(3,060)	(15,606)

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

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

		CONSOLIDATED	
		2011	2010
		$'000	$'000
Financial Assets			
Cash	(included within note 4)	9,425	412
Trade receivables	(included within note 6)	6,300	25,023
Financial Liabilities			
Trade payables	(included within note 13)	(126)	(96)
Hire purchase facility	(included within note 14)	(20,299)	(31,559)
Net exposure		**(4,700)**	**(6,220)**

[c] Interest rate risk

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

The Group'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 Group has entered into interest rate swaps, in which the Group 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 Group 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 Group's exposure to interest rate risks on financial assets and financial liabilities are as follows:

Notes to the Consolidated Financial Report (continued)

	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		Non-interest bearing		Total carrying amount per balance sheet		Weighted Average Interest	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	%	%
CONSOLIDATED												
i) ***Financial assets***												
Cash	21,904	47,495	95,096	199,907	-	-	7	2	**117,007**	**247,404**	**5.58**	**4.26**
Term deposits	-	-	270,000	100,000	-	-	-	-	**270,000**	**100,000**	**5.99**	**5.90**
Trade and other receivables	-	-	-	-	-	-	22,249	33,979	**22,249**	**33,979**	**-**	**-**
Derivatives	-	-	-	-	-	-	386	3,273	**386**	**3,273**	**-**	**-**
Total financial assets	**21,904**	**47,495**	**365,096**	**299,907**	**-**	**-**	**22,642**	**37,254**	**409,642**	**384,656**		
ii) ***Financial liabilities***												
Trade and other payables	-	-	-	-	-	-	99,556	97,297	**99,556**	**97,297**	**-**	**-**
Derivatives	-	-	-	-	-	-	63	1,808	**63**	**1,808**	**-**	**-**
Lease liabilities	-	-	2,231	5,456	2,965	1,094	-	-	**5,196**	**6,550**	**8.89**	**8.92**
Hire purchase	-	-	26,376	9,641	13,496	35,719	-	-	**39,872**	**45,360**	**7.67**	**7.61**
Corporate debt	-	85,000	-	-	-	-	-	-	**-**	**85,000**	**-**	**7.77**
Total financial liabilities	**-**	**85,000**	**28,607**	**15,097**	**16,461**	**36,813**	**99,619**	**99,105**	**144,687**	**236,015**		

[i] Interest rate sensitivity

The following table details the effect on profit and other comprehensive income after tax to a 1% change in the interest rates at 30 June 2011 and 30 June 2010.

	Net Profit		Other Comprehensive Income	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
• 1% increase in interest rate with all other variables held constant	2,556	1,504	-	-
• 1% decrease in interest rate with all other variables held constant	(2,556)	(1,504)	-	-

The sensitivity analysis of the Group's exposure to Australian variable 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 other comprehensive income as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

[d] Credit risk

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

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

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of 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 Group.

[e] Commodity price risk

The Group's operations are exposed to commodity price risk. The Group's sales revenue is derived under long term sales contracts for the life of mine at each of its operations. On 3 November 2010, Mount Gibson announced that it had reached agreement with two of its customers, Shougang and APAC, on a revised pricing mechanism to apply under ore sales agreements for Tallering Peak and Koolan Island iron ore product. The revised pricing mechanism reflects a market based clearing index. The revised pricing mechanism adopts the Platts Iron Ore Index Price ("**Platts Index**") which is published daily for iron ore product with Fe content ranging from 58% to 65% and is quoted on a US$ per dry metric tonne CFR North China basis. The price to be paid by Shougang and APAC for Mount Gibson's Tallering Peak and Koolan Island iron ore is based on the applicable Platts Index for the type and quality of ore delivered and reflects the average Platts Index for the preceding calendar month of the iron ore shipment. The average monthly Platts Index is converted to an FOB price per dry metric tonne by deducting the calculated shipping freight costs utilising corresponding shipping average monthly indices for Panamax vessels from the ports of Geraldton and Koolan Island to Qingdao. Lump iron ore receives a premium to the published Platts Index price and is determined every 6 months.

Mount Gibson reached agreement with Stemcor (S.E.A.) Pte Ltd on a revised pricing mechanism to apply under the long term ore sales agreement for Tallering Peak which also reflects a market based clearing price.

Mount Gibson has not yet been able to agree the lump premium with APAC or Shougang which applies from 1 April 2011 to 30 September 2011 whilst it has agreed a lump premium of 9.22% with Stemcor (S.E.A.) Pte Ltd. Pursuant to the terms of the sales agreements with APAC and Shougang, an umpire has been appointed to determine the lump premium that will apply for the period. The financial results for the year include lump premium recorded at 9.22% for the period 1 April to 30 June 2011. Each 1% reduction in lump premium determined by the arbitrator would reduce revenue after royalties by $476,843.

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 limited available financial instruments available to hedge the iron ore price.

[f] Liquidity risk and Capital risk management

The Group'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 Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Group's capital risk management objectives are to safeguard the business as a going concern, to 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 14 sets out details of the Amended Corporate Debt facility.

At 30 June 2011, the Group had unutilised standby credit facilities totalling $59,918,000 (2010: $9,662,000).

The table below analyses the Group'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 2011					30 June 2010				
	Less than 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	Less than 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial Liabilities										
Trade and other payables	99,556	-	-	-	**99,556**	97,297	-	-	-	**97,297**
Lease liabilities	1,631	600	2,965	-	**5,196**	2,043	3,854	1,118	-	**7,015**
Hire purchases	12,613	13,763	13,496	-	**39,872**	6,493	6,209	38,066	-	**50,768**
Corporate debt	-	-	-	-	**-**	53,330	36,013	-	-	**89,343**
Derivatives – Gross Inflow	(42,818)	-	-	-	**(42,818)**	(141,841)	(117,583)	-	-	**(259,424)**
Derivatives – Gross Outflow	42,495	-	-	-	**42,495**	141,076	116,883	-	-	**257,959**
	113,477	**14,363**	**16,461**	**-**	**144,301**	**158,398**	**45,376**	**39,184**	**-**	**242,958**

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 Group 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 determined using the Level 2 method requiring fair value to be calculated using observable market inputs. The Group's fair values under Level 2 method are sourced from an independent valuation by the Group'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.

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Financial assets - current				
Cash	21,911	21,911	47,497	47,497
Short-term deposits	95,096	95,096	199,907	199,907
Long-term deposits	270,000	270,000	100,000	100,000
Trade debtors	7,398	7,398	26,573	26,573
Other receivables	14,851	14,851	7,406	7,406
Derivatives	386	386	3,273	3,273
	409,642	409,642	384,656	384,656
Financial liabilities – current				
Trade and other payables	99,556	99,556	97,297	97,297
Lease liabilities	28,607	28,607	15,097	15,097
Corporate debt	-	-	85,000	85,000
Derivatives	63	63	1,808	1,808
	128,226	128,226	199,202	199,202
Financial liabilities – non current				
Lease liabilities	16,461	16,461	36,813	36,813
	16,461	16,461	36,813	36,813
Net financial assets / (financial liabilities)	**264,955**	**264,955**	**148,641**	**148,641**

31. PARENT ENTITY INFORMATION

	2011 $'000	2010 $'000
[a] Information relating to Mount Gibson Iron Limited:		
Current assets	905	1,117
Total assets	597,022	666,115
Current liabilities	23,607	106,475
Total liabilities	23,607	106,475
Issued capital	561,585	559,207
Accumulated losses	(7,160)	(18,135)
Share based payments reserve	18,990	18,568
Total Shareholder's Equity	573,415	559,640
Net profit/(loss) after tax of the parent entity	10,975	(2,768)
Total comprehensive income / (loss) of the parent entity	10,975	(934)

[b] Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Refer to Note 9.

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

There are no contingent liabilities of the parent entity as at reporting date.

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

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

[e] Tax Consolidation

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

Directors' Declaration

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

1. In the opinion of the Directors:

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

      i) giving a true and fair view of the financial position of the Group as at 30 June 2011 and of their performance for the year ended on that date; and

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

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

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the directors.

C READHEAD
Chairman

Perth, 11 August 2011

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

Report on the financial report

We have audited the accompanying financial report of Mount Gibson Iron Limited, which comprises the consolidated balance sheet as at 30 June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

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

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Mount Gibson Iron Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
11 August 2011

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