

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED (“MOUNT GIBSON”) QUARTERLY REPORT FOR THE PERIOD ENDED 30 JUNE 2010 ASX ANNOUNCEMENT 21 JULY 2010

HIGHLIGHTS

- Record **Unaudited** Net Profit After Tax of \$132.4 million
- Cash on hand at the end of June 2010 of \$347 million
- 23% increase in ore production compared with previous year establishing record production
- 20% increase in ore sales compared with previous year establishing record ore sales
- Record ore sales from Koolan Island
- Record ore sales from Tallering Peak
- Extension Hill DSO Project on schedule to commence shipments in the first quarter 2011/12 financial year
- Koolan Island western end preliminary exploration reconnaissance commenced

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QUARTERLY REPORT



CORPORATE

Unaudited Financial Results

The **unaudited** net profit after tax for the twelve months ended 30 June 2010 was \$132.4 million.

The result for the financial year ended includes \$28.0 million (\$19.6 million after tax) relating to the settlement amount paid in full by Sinom (Hong Kong) Ltd (see ASX announcement of 29 October 2009 and 12 May 2010) that has been recognised in:

- Other Income - \$20.4 million; and
- Interest income - \$7.6 million

The unaudited financial performance is set out below:

		Unaudited 6 months ended 31 Dec 2009	Unaudited 6 months ended 30 June 2010	Unaudited 12 months ended 30 June 2010
Tonnes mined	wmt (mill)	3.68	3.60	7.28
Tonnes sold	wmt (mill)	3.38	3.10	6.48
Revenue	\$ mill	242.3	294.0	536.3
Interest income	\$ mill	4.4	14.6	19.0
Cost of goods sold	\$ mill	(189.1)	(168.5)	(357.6)
Gross profit	\$ mill	57.6	140.1	197.7
Other income	\$ mill	13.8	6.6	20.4
Admin and other expenses	\$ mill	(10.5)	(10.3)	(20.8)
Unrealised FX (loss) / gain	\$ mill	4.2	2.1	6.3
FX hedge mark-to-market (loss) / gain	\$ mill	(0.5)	3.4	2.9
Operating profit before interest & tax	\$ mill	64.6	141.9	206.5
Finance costs	\$ mill	(8.8)	(9.4)	(18.2)
Net profit before tax	\$ mill	55.8	132.5	188.3
Tax (expense)	\$ mill	(16.4)	(39.5)	(55.9)
Net profit after tax	\$ mill	39.4	93.0	132.4

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At 30 June 2010, Mount Gibson had \$347 million cash on hand and \$85 million in Senior Debt with the following repayment schedule:

- \$25 million on 30 September 2010;
- \$25 million on 30 December 2010;
- \$25 million on 31 March 2011; and
- \$10 million on 30 June 2011.

At 30 June 2010 the foreign exchange hedge book totalling US\$206 million was made up as follows:

Forward contract profile totalling US\$ 86 million is:

- US\$86 million due in the 6 months ending 31 December 2010 - weighted average A\$ rate of 0.8422

Collar options profile totalling US\$ 120 million is:

- US\$30 million due in the 6 months ending 31 December 2010 – call price 0.8600 and put price 0.7700; and
- US\$90 million due in the 6 months ending 30 June 2011 - call price 0.8600 and put price 0.7700

Arbitration

Until November 2008, Mount Gibson had in place a number of long term offtake agreements with various traders and steel mills covering life of mine production from each of Talling Peak, Koolan Island and Extension Hill. Those agreements provided for the Mount Gibson 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, Rizhao Steel Holding Group Co Ltd ("**Rizhao**") and Sinom (Hong Kong) Ltd, were subsequently terminated in accordance with their terms. Mount Gibson reached a settlement with Sinom (Hong Kong) Ltd on 29 October 2009.

Arbitration proceedings have been completed between Mount Gibson and the other two former customers. Mount Gibson is seeking to recover the losses it claims arising from the breach and subsequent termination of the agreements. Rizhao have issued a counterclaim on the basis that the termination by Mount Gibson was not justified and is also alleging that Mount Gibson engaged in misleading and deceptive conduct. Mount Gibson is very confident that the counterclaim is without substance. Arbitral awards are expected to be handed down by the end of August.

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OPERATIONS

Talling Peak

Talling Peak ore production increased 67% compared to the March 2010 quarter achieving a record 1.22 million tonnes. Total ore production for the year was at near record levels whilst exceeding the 2008/09 year by 59%. Total material movement was 13% lower than the previous quarter and 29% higher than the corresponding quarter last year. The final T6A3 ramp was complete during the quarter allowing for stripping to the final pit limit.

Waste mined during 2009/10 increased by 4% compared with 2008/09.

Crusher throughput increased by 26% compared with the previous quarter as the benefit of the crusher upgrade completed in the December quarter was realized. Crushing throughput for 2009/10 was at record levels and surpassed 2008/09 throughput by 29%.

Road and rail haulage maintained the previous quarter's rate and exceeded the corresponding period last year by 30% and 5% respectively. Road and rail transport exceeded 2008/09 rates by 35% and 15% respectively.

Total ore sales for the quarter were consistent with the previous quarter whilst exceeding 2008/09 by 17% and establishing a new annual sales record of 3.15 million tonnes.

Production for the June quarter and 2009/10 financial year is detailed in the following table:

		Sept 2009 qtr 000's	Dec 2009 qtr 000's	March 2010 qtr 000's	June 2010 qtr 000's	TOTAL 09-10 000's
Mining						
Waste Mined	bcm	1,509	1,781	2,495	2,035	7,820
Ore Mined	wmt	1,063	792	731	1,220	3,806
Crushing						
Lump	wmt	431	391	463	549	1,834
Fines	wmt	426	347	322	443	1,538
Total		857	738	785	992	3,372
Transport to Mullewa Railhead						
Lump	wmt	421	382	417	524	1,744
Fines	wmt	277	465	457	393	1,592
Total		698	847	874	917	3,336
Transport to Geraldton Port						
Lump	wmt	546	440	439	401	1,826
Fines	wmt	179	350	348	383	1,260
Total		725	790	787	784	3,086
Shipping						
Lump	wmt	507	476	468	465	1,916
Fines	wmt	213	301	360	358	1,232
Total		720	777	828	823	3,148

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Comparison between figure 1 and figure 2 shows the progress of Talling Peak's Main Range mining operations in the June 2010 quarter.

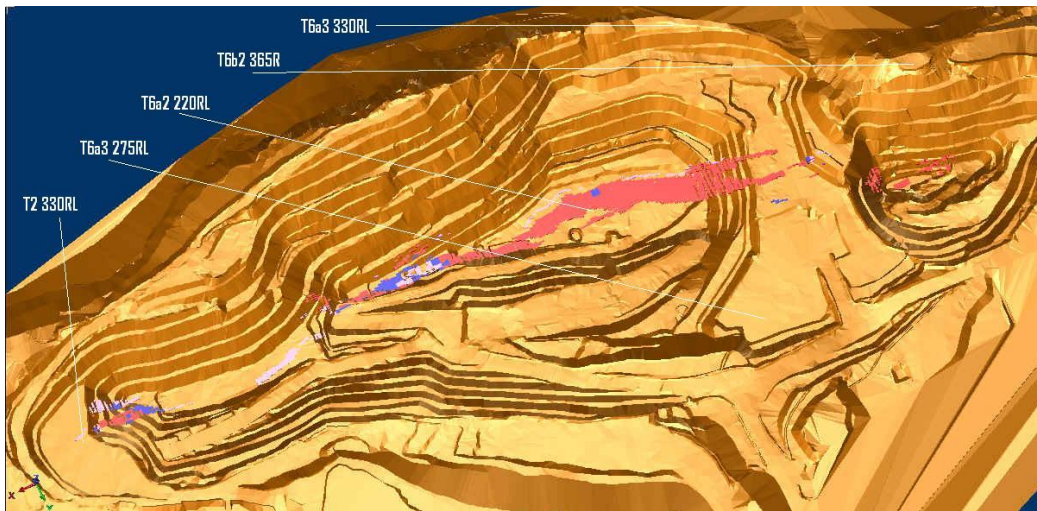


Figure 1 - Main Range mining as at the end of the March 2010 quarter

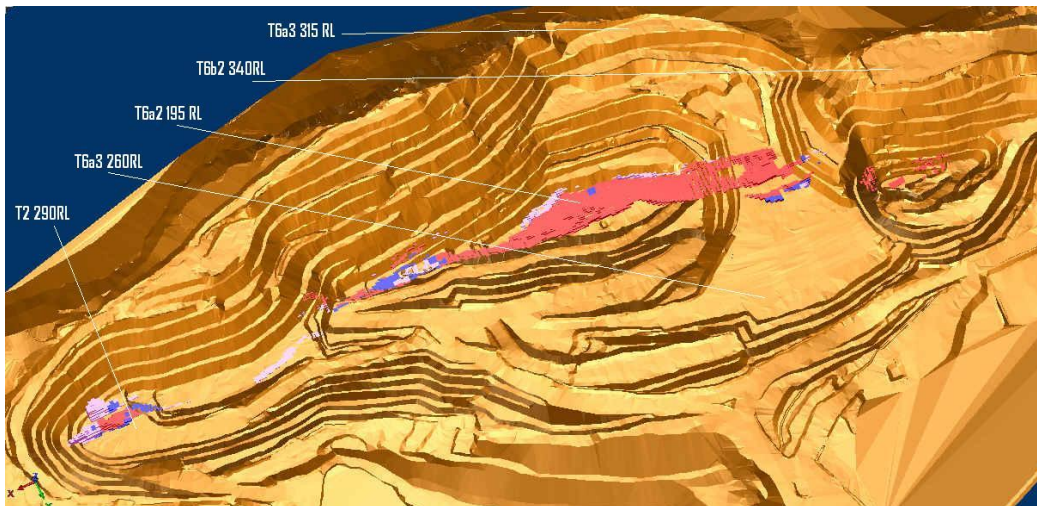


Figure 2 - Main Range mining as at the end of the June 2010 quarter

The priority mining area in the June quarter was the T6A3 cutback. Waste is being stripped from the T6A3 cutback prior to the completion of the T6A2 and T2B cutbacks to ensure continuity of high grade ore supply. Waste stripping commenced on Stage 2B of the T6A3 cutback during the quarter and had progressed to the 340mRL. The North wall cutback had progressed to the 278mRL.

The T6A3 cutback will remain the priority mining area over the September quarter.

Mining in the T5 pit is established at the 180mRL.

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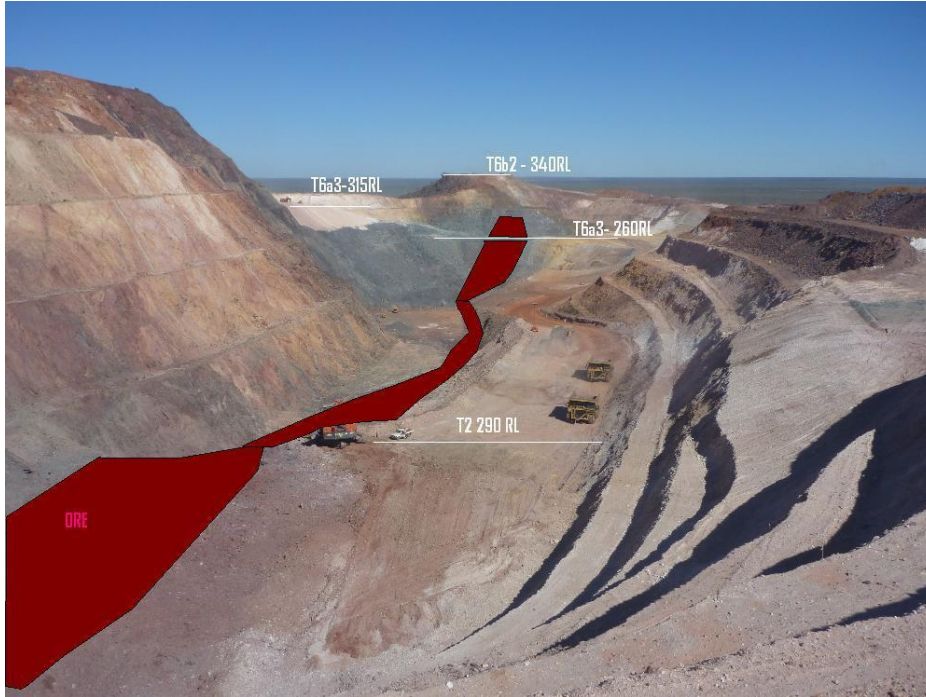


Figure 3 - Main Range Pit operations looking west from the eastern end of T2



Figure 4 - Main Range operation looking from the crest of T6b2 to the T2 cutback

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Koolan Island

Total material movement of 3.24 million BCM during the quarter was in line with the previous quarter's total movement however was adversely impacted by unseasonal rainfall in May of 540 mm. Total material movement exceeded the corresponding year by 10% whilst ore production exceeded the previous quarter by 27%, despite the adverse unseasonal weather conditions. The significant rainfall event adversely affected production from Eastern Pit and the lower benches of Mullet Pit. Full production from these two pits was reinstated by the end of the quarter.

To compensate for the temporary loss of production from both Eastern and Mullet pits, ore was sourced from the western end of Main Pit and Barramundi West pit.

The unseasonal rainfall during the quarter had an adverse impact on ore materials handling through the crusher circuit and the elevated moisture content of the ore disrupted shiploading resulting in a 9% reduction in crusher throughput and 19% reduction in ore shipped compared with the previous quarter. Compared with the previous year, crushing and shipping production increased 19% and 23% respectively.

The Main Pit - Stage 1 cutback continued to advance ahead of schedule during the quarter whilst mining of quartzite material from both Crusher Hill and Blinker Hill continued to provide bulk waste fill for the construction of the Main Pit outer seawall embankment.

Dewatering and rehabilitation of Main Pit continued as planned during the quarter with the -21mRL footwall berm being exposed. Both the eastern and western outer embankment walls continued to advance during the quarter with a total of 1.1 million cubic metres of fill material being placed. Excavation of the Seawall Zone 1 Slot commenced on the western abutment during the quarter in preparation for the installation of primary impervious core.

Production for the June quarter and 2009/10 financial year is detailed in the following table:

		Sept 2009 qtr 000's	Dec 2009 qtr 000's	March 2010 qtr 000's	June 2010 qtr 000's	TOTAL 09-10 000's
Mining						
Waste Mined	bcm	3,974	3,276	3,013	2,959	13,222
Ore Mined	wmt	1,054	770	725	924	3,473
Crushing						
Lump	wmt	298	347	285	306	1,236
Fines	wmt	664	627	519	427	2,237
Total	wmt	962	974	804	733	3,473
Shipping						
Lump	wmt	355	284	366	293	1,298
Fines	wmt	581	664	436	360	2,041
Total	wmt	936	948	802	653	3,339

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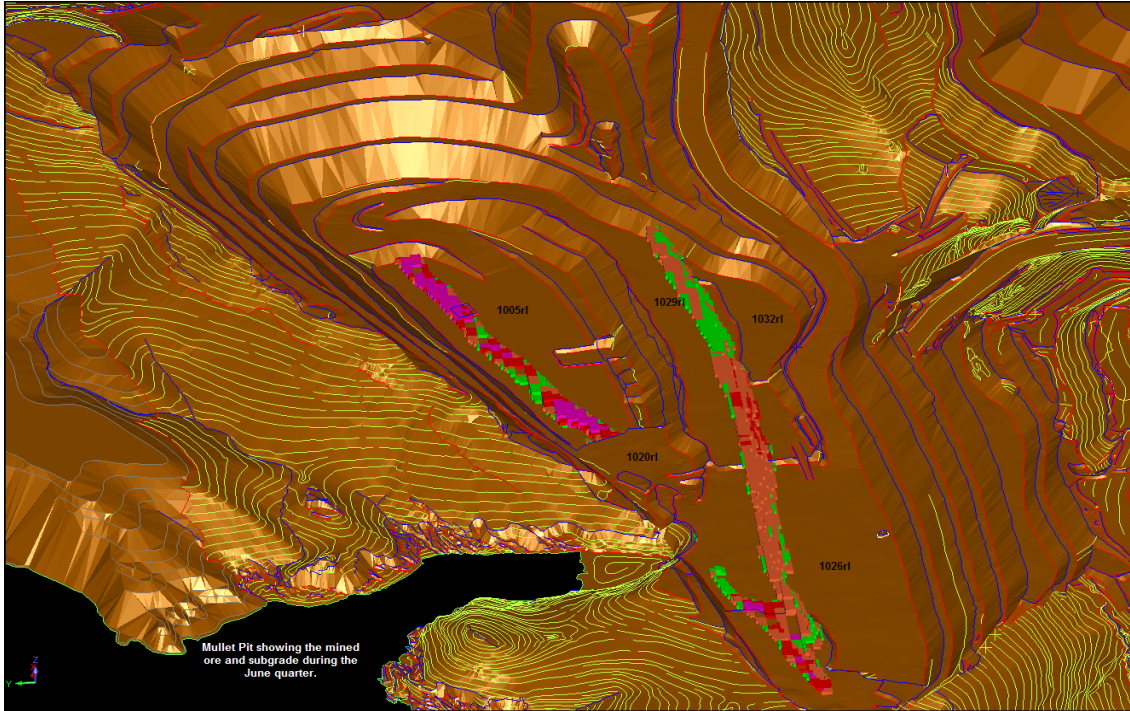


Figure 5 - Mullet Pit at the end of June 2010 looking east

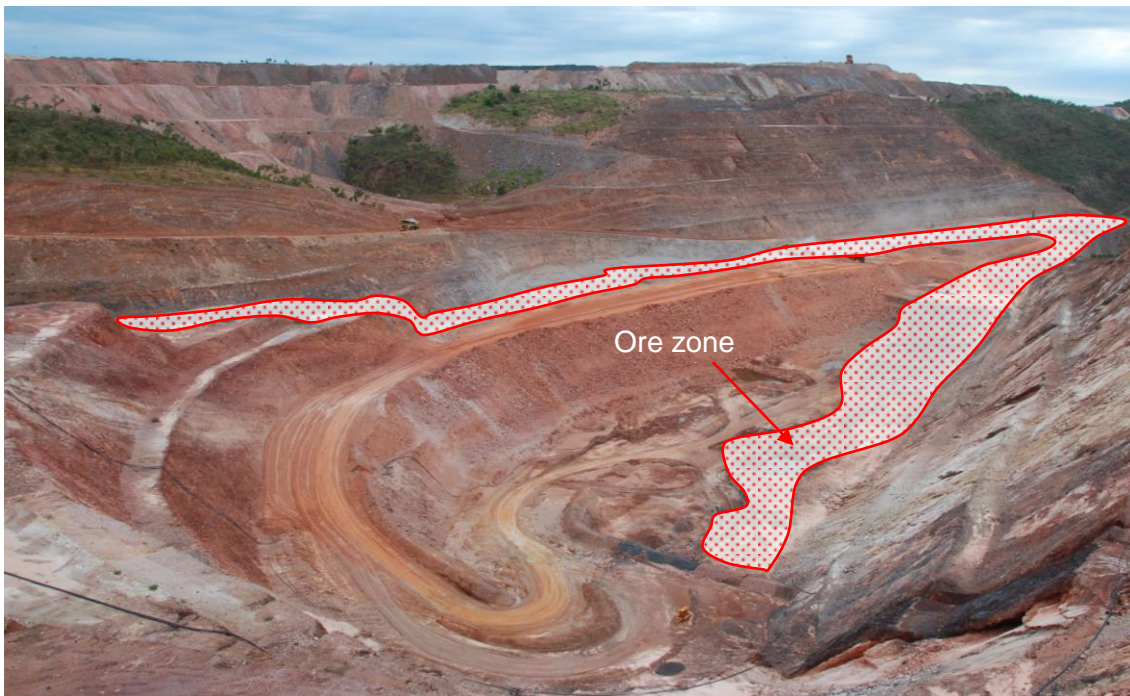


Figure 6 - Mullet Pit at the end of June 2010 looking south-west showing bench development

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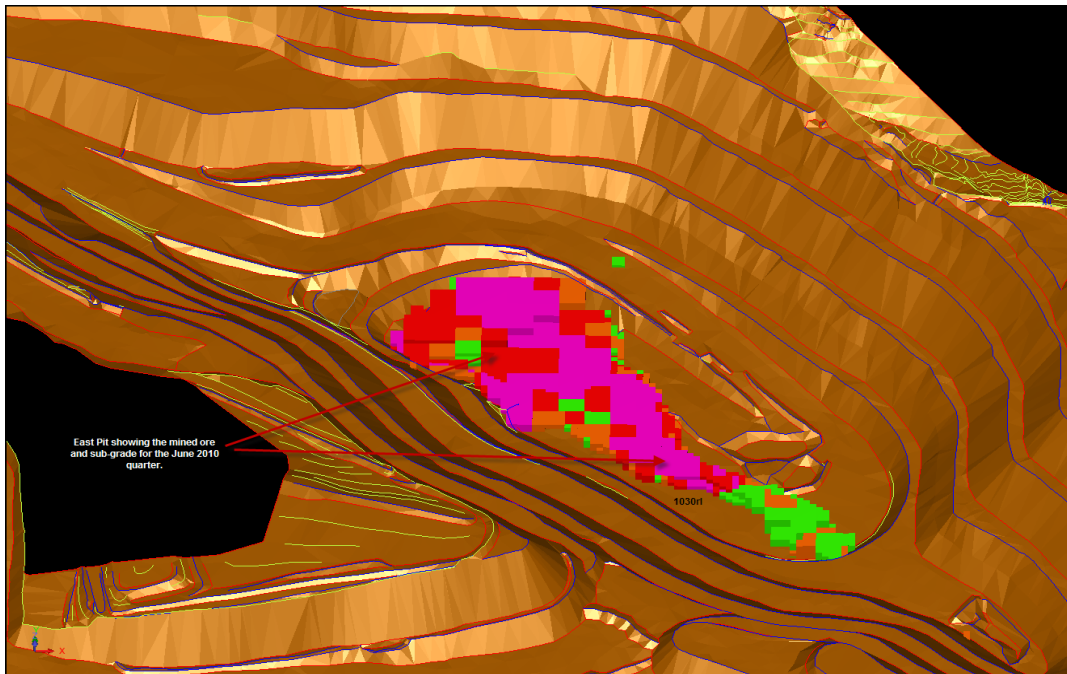


Figure 7 - Eastern Pit at the end of June 2010 looking north-west



Figure 8 - Eastern Pit at the end of June 2010 looking north-west showing bench development

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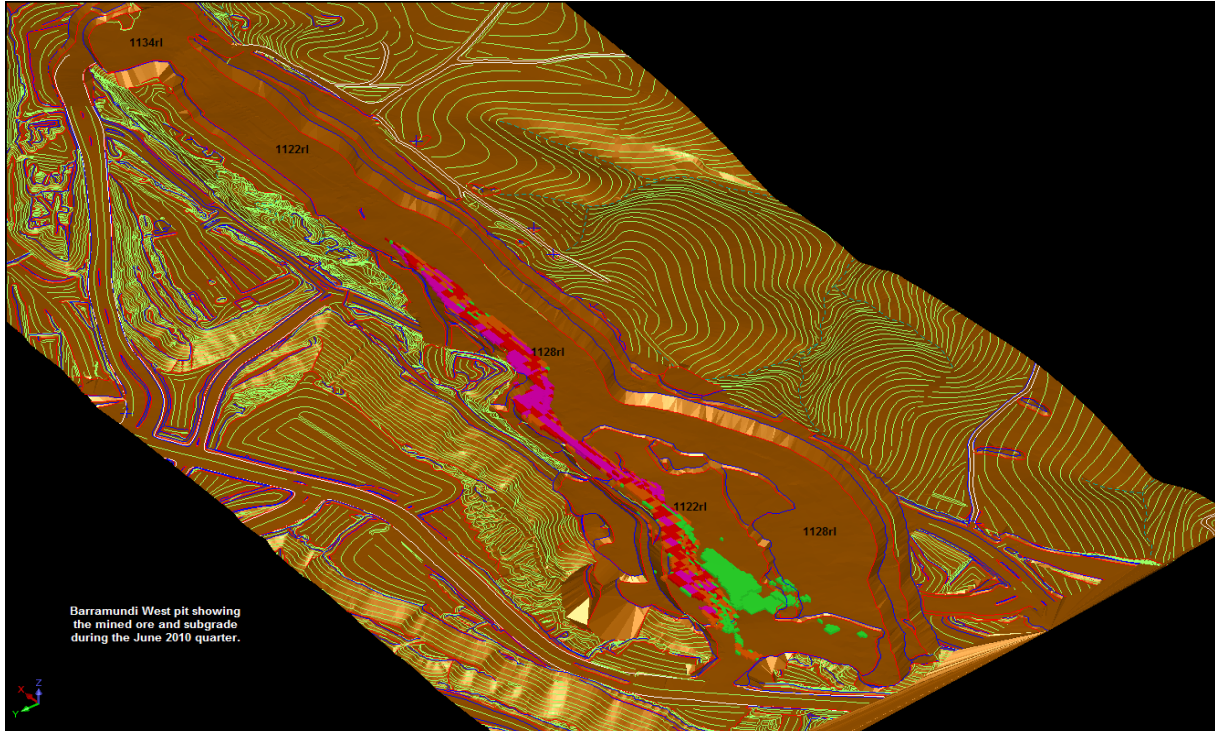


Figure 9 – Barramundi West Pit at the end of June 2010 looking south-east showing bench development

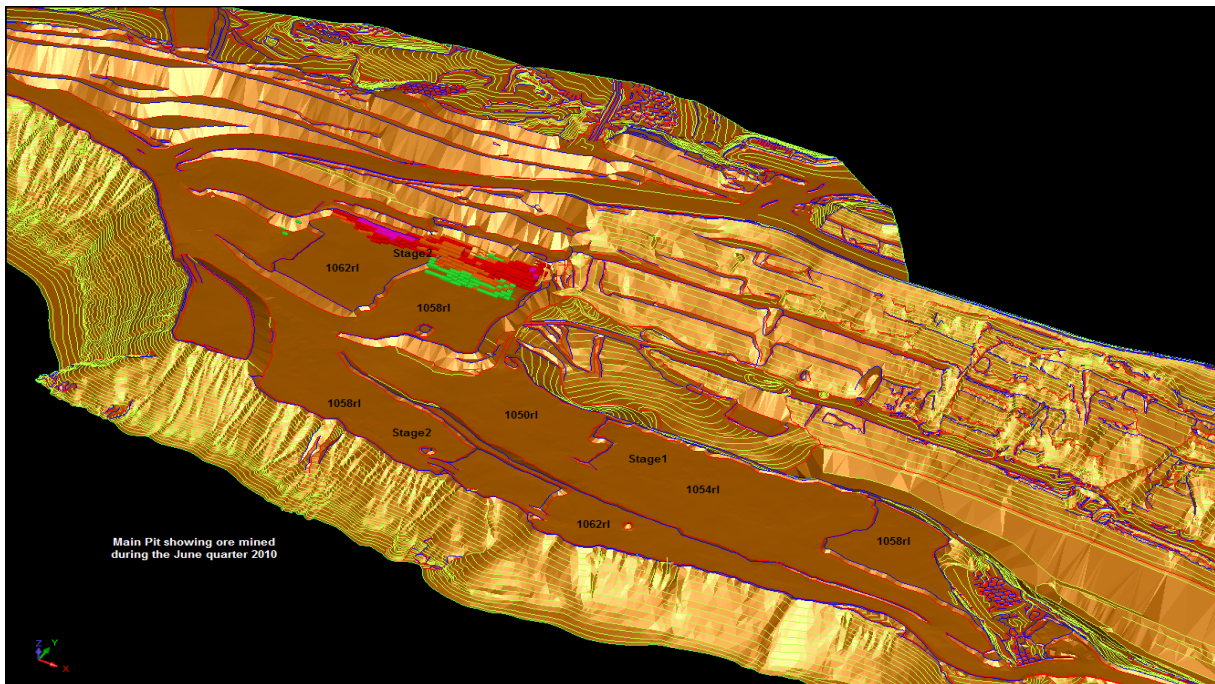


Figure 10 – Main Pit at the end of June 2010 looking north-west

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Figure 11 – Seawall outer embankment with western zone 1 slot commencing

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EXPLORATION

Koolan Island

Reverse circulation drilling at Koolan Island continued throughout the quarter with the focus of activity being the definition of the eastern termination of the Main Pit mineralization and of the Mangrove satellite deposit, located approximately 800 metres further east (figure 12). Infill resource drilling was progressed at Acacia East and sterilization drilling at Coral Trout (the western extension of the Eastern orebody) continued. A small number of shallow geotechnical holes were drilled into the final pit wall of the western end of Main Pit. A total of 78 holes were drilled during the quarter for 8505 metres. For the full year 203 RC holes were drilled for 26,406 metres.



Figure 12 – Plan of Koolan Island showing drillhole collar locations for holes drilled during the quarter (yellow circles) and all previous drilling (grey)

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At the eastern end of Main Pit drilling locations had been restricted, resulting in a low drillhole density and therefore a significant volume of inferred resource within the final pit design. As access has become available during the quarter the drilling density has been increased to 50 metres and in places to 25 metres. In addition to allowing conversion of inferred resource to reserves the new data has clearly defined the eastern limit of the high grade Main Pit orebody at between 12900E and 12925E (figure 13).

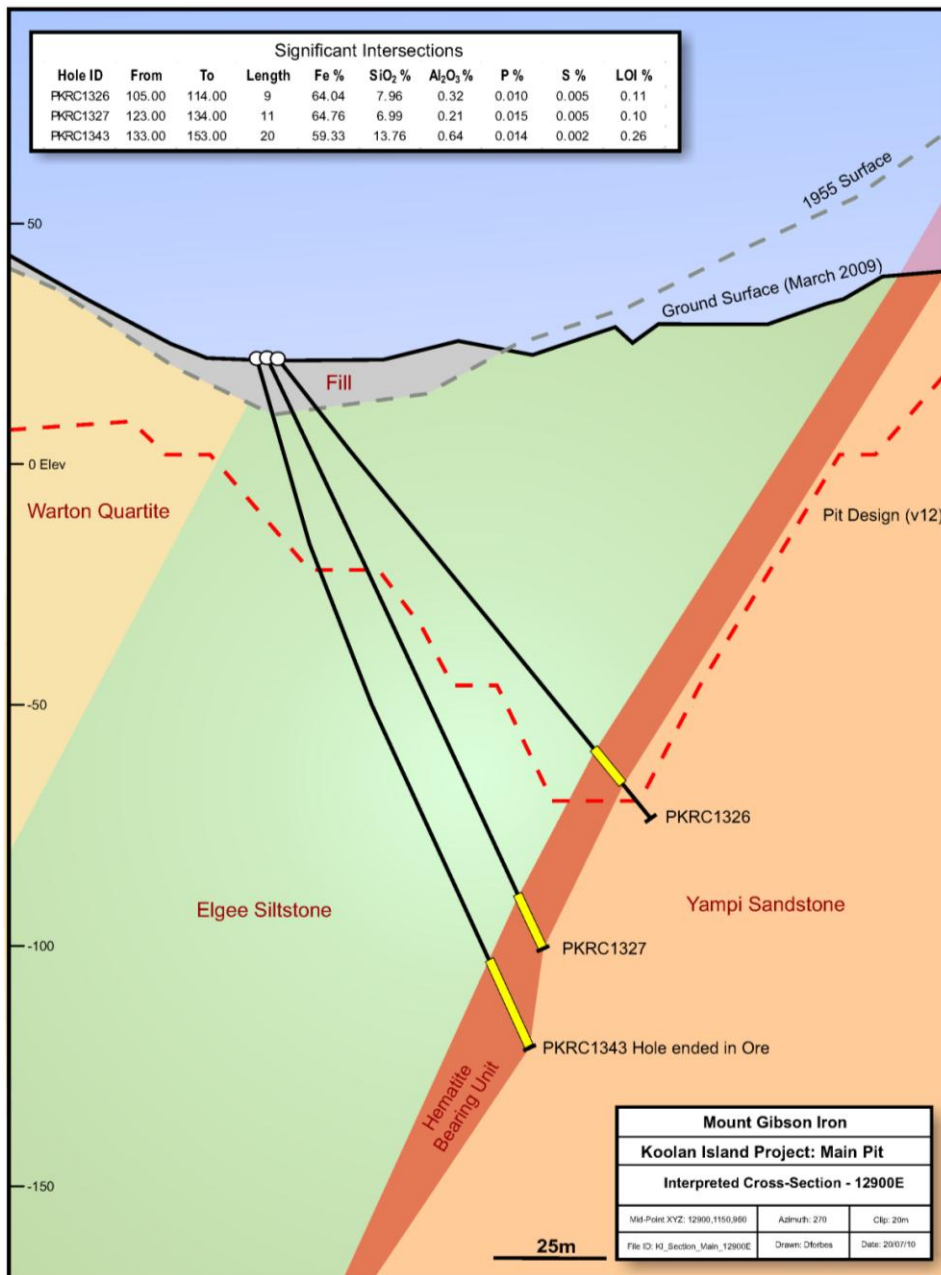


Figure 13 – Section 12900E, looking west, Main Pit. Drillholes PKRC1347 and PKRC1348 demonstrate the rapid termination of the Main orebody.

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Drilling at the eastern end of Main Pit also suggested that the previously poorly understood Mangrove satellite deposit is actually a tightly folded zone of mineralization, structurally similar to the tightly folded Eastern orebody that otherwise occurs as an along strike continuation of the Main Pit stratigraphy. With improved access a program of 17 holes was completed at Mangrove, confirming the predicted structural model. A number of significant intersections were returned, the best from zones of interpreted thickening due to folding (figure 14). The mineralization is similar in nature to that at Mullet-Acacia with elevated silica values (refer to table of results). Detailed modeling of the results will be undertaken over the next quarter.

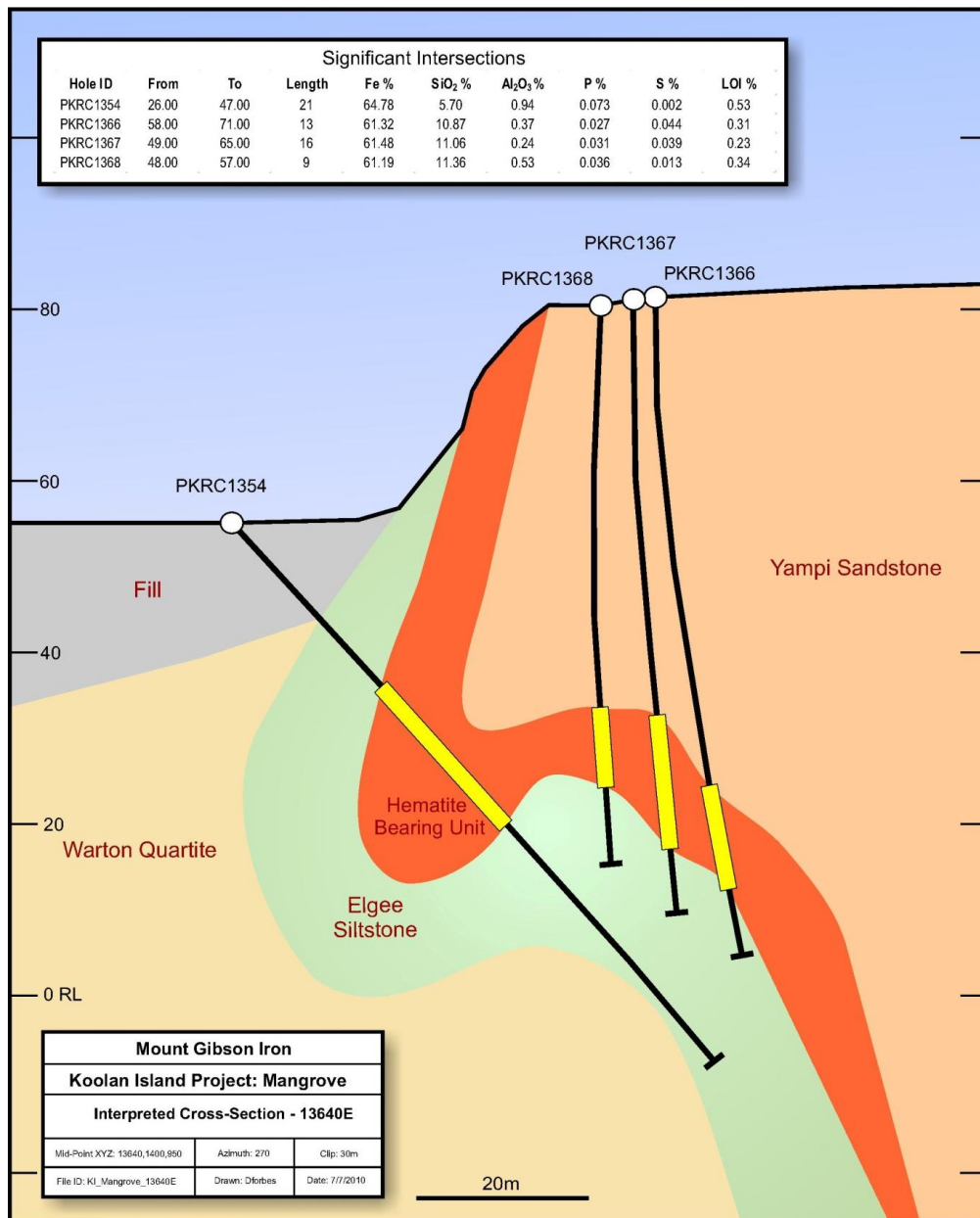


Figure 14 – Section 13640E, looking west, Mangrove.

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At Acacia East additional drilling was undertaken to complete resource definition on 50 metre spaced sections and to define the eastern extent of the mineralisation. The orebody pinches out rapidly up and down dip as shown in figure 15, section 12900E, and also terminates rapidly to the east, by section 1300E. Significant assay results are included in the table below.

Area	Hole ID	From	To	Length m	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	S %	LOI %
Acacia East	PKRC1320	140	148	8	60.31	12.84	0.28	0.014	0.020	0.13
	PKRC1321	168	182	14	64.50	7.39	0.19	0.006	0.020	0.07
	PKRC1322	125	138	13	64.84	7.26	0.10	0.005	0.005	0.09
	PKRC1323	132	139	7	59.23	15.06	0.19	0.005	0.005	0.09
	PKRC1328	222	230	8	58.84	16.42	0.14	0.005	0.005	0.04
	PKRC1386	189	194	5	61.36	12.13	0.19	0.002	0.001	0.04
	PKRC1387	74	80	6	59.18	15.03	0.27	0.017	0.010	0.11
Main Pit	PKRC1324	92	102	10	64.04	7.91	0.32	0.009	0.005	0.14
	PKRC1325	104	116	12	64.95	6.36	0.51	0.021	0.005	0.27
	PKRC1326	105	114	9	64.04	7.96	0.32	0.010	0.005	0.11
	PKRC1327	123	134	11	64.76	6.99	0.21	0.015	0.005	0.10
	PKRC1340	138	148	10	56.27	17.71	1.27	0.015	0.001	0.39
	PKRC1343	133	153	20	59.33	13.76	0.64	0.014	0.002	0.26
	PKRC1346	107	113	6	59.95	14.00	0.18	0.010	0.001	0.05
	PKRC1347	22	27	5	54.80	21.23	0.54	0.011	0.001	0.15
	PKRC1348	13	19	6	54.73	20.67	0.88	0.013	0.001	0.29
	PKRC1351	140	157	17	59.74	13.53	0.62	0.025	0.002	0.28
Mangrove	PKRC1352	124	130	6	65.22	5.86	0.56	0.018	0.005	0.20
	PKRC1353	9	15	6	56.25	14.98	2.63	0.035	0.036	1.34
	PKRC1354	26	47	21	64.78	5.70	0.94	0.073	0.002	0.53
	PKRC1359	186	191	5	57.22	15.14	1.84	0.095	0.001	0.94
	PKRC1360	6	22	16	59.21	14.40	0.62	0.018	0.004	0.31
	PKRC1362	50	66	16	62.09	9.67	0.81	0.039	0.018	0.47
	PKRC1363	38	46	8	65.36	4.41	1.24	0.122	0.006	0.54
	PKRC1364	33	44	11	63.28	6.83	1.69	0.107	0.014	0.74
	PKRC1365	39	47	8	60.76	11.98	0.64	0.026	0.010	0.45
	PKRC1366	58	71	13	61.32	10.87	0.37	0.027	0.044	0.31
	PKRC1367	49	65	16	61.48	11.06	0.24	0.031	0.039	0.23
PKRC1368	48	57	9	61.19	11.36	0.53	0.036	0.013	0.34	

Table of significant assay results (>5 m, >55% Fe).

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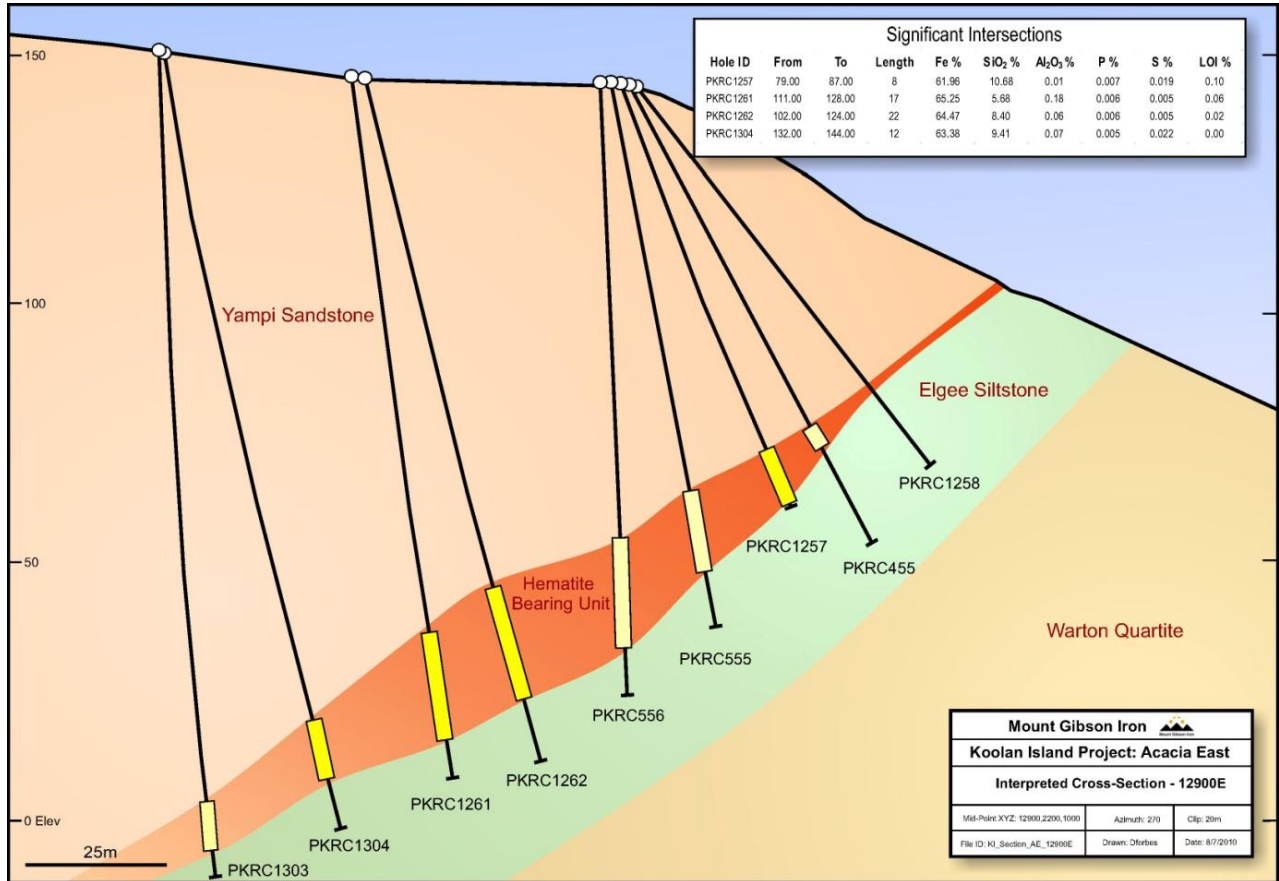


Figure 15 – Section 12900E, looking west, Acacia East.

An initial field assessment of the western end of Koolan Island on Exploration Licence E04/1266 during April demonstrated the existence of widespread hematitic sandstone, typical of the Yampi Formation elsewhere on Koolan Island. With the arrival of cooler weather a more extensive mapping program began at the end of June, with the aim of defining an exploration drilling program.

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Tallering Peak

At Tallering Peak a small reverse circulation drilling program consisting of 19 holes for 2325 metres was undertaken to complete exploration drilling on the North Ridge and to define down dip extensions to the existing resource under the original T4 Pit in the Main Range.

Six holes were drilled on the North and Central Ridges to complete testing of gravity and magnetic targets (figure 16). Drilling of these targets commenced during the quarter. No significant mineralization was intersected and the gravity anomalies targeted are explained by the presence of basic intrusive rocks.

T4 access for drilling was provided from the existing access ramp into the pit (figure 16). Holes were drilled on 50 metre spaced sections, generally below existing drillholes in order to improve definition of the base of the orebody and to extend the resource down dip. Significant extensions to defined mineralization were intersected at the eastern end of the pit (figure 17). To the west any additional hematite mineralization is narrow and contains significant sulphur as pyrite.

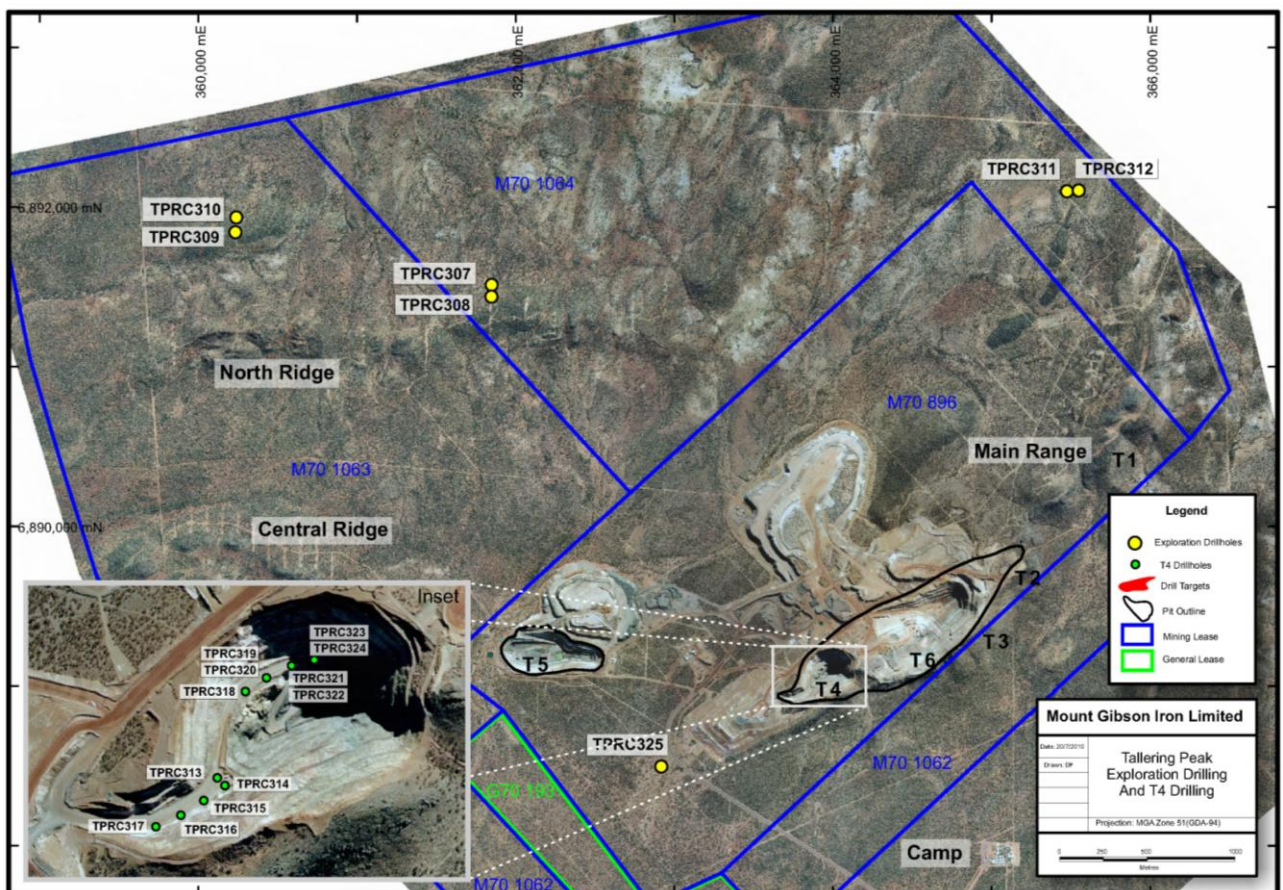


Figure 16 – Tallering Peak Mine Leases.

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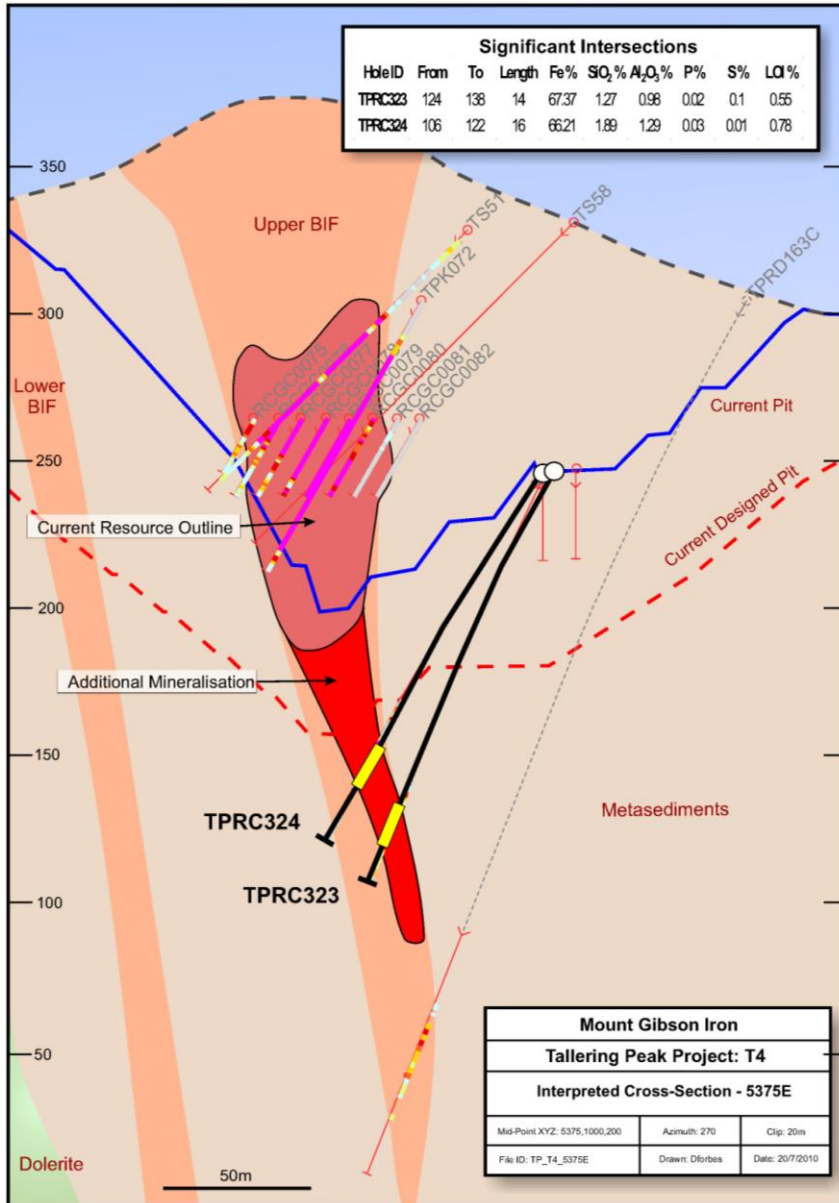


Figure 17 – Section 5375E, T4, Tallering Peak, looking east.

Hole ID	From	To	Length	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	S %	LOI %
TPRC313	48	53	5	60.52	4.58	3.22	0.02	0.77	1.92
TPRC316	14	17	3	56.95	8.23	5.69	0.04	0.03	3.06
TPRC321	87	104	17	66.07	1.90	1.31	0.03	0.06	0.81
TPRC323	124	138	14	67.37	1.27	0.98	0.02	0.10	0.55
TPRC324	106	122	16	66.21	1.89	1.29	0.03	0.01	0.78

Table of significant assay results (>3 m, >55% Fe), T4 Pit.

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EXTENSION HILL DIRECT SHIPPING ORE (“DSO”) PROJECT

Activity on the Extension Hill Project intensified during the quarter. In line with MGI’s predefined Project Execution Plan the project team has concentrated on the progressing the longest procurement and construction lead time items. Construction work commenced in all major project areas with status by key area as follows:

Extension Hill Mine Site

- Temporary accommodation and messing facilities for initial site construction works have been established and commissioned at the nearby Mt Gibson Gold mine;
- The accommodation village and main office complex, in storage for the past 20 months, is being readied for transport and installation at the permanent Extension Hill camp location;
- The contract for the site bulk earthworks which includes the crushing and screening area, the administration and workshops area, site access roads and the village was awarded and site clearing commenced;
- The contract for the design, supply and installation of the crushing and screening plant was awarded and works commenced;
- The contract for relocation of the Great Northern Highway was awarded during the quarter and the contractor commenced mobilisation to site in early July; and
- The tender for the supply and installation of the site weighbridge was issued and tenders are being evaluated.

Transport Corridor

- The contract for the upgrade of the haul road from the Extension Hill mine site to the Perenjori rail siding was awarded and site work commenced;
- The tender for bulk earthworks at the Perenjori rail siding was issued and pricing received. It is anticipated that the contract for this work will be issued in July;
- Westnet and ARG continue to progress works associated with the rail transport of Extension Hill product to Geraldton Port. Westnet advise that they expect to commence work to upgrade the Perenjori to Morawa section of the rail line in July; and
- The tender for road haulage of Extension Hill product from the mine site to Perenjori Rail siding was issued and it is anticipated that a contract for these services will be awarded shortly.

Geraldton Port – Berth 5 Storage Facility

- The structural steel and mechanical installation contractor has made substantial progress during the quarter with the building structural framework being completed and cladding of the building commencing in early July;
- The contract to supply major long lead electrical components (i.e. main switchboard, switch-room and transformer) was issued; and
- The electrical and instrumentation work program was tendered during the quarter and this work package will be awarded in July.

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GPA Train Unloader Upgrade

- Work on the Train Unloader Upgrade (“**TUU**”) is the responsibility of the Geraldton Port Authority as it will be a common user facility. To date the GPA has been unable to secure funding from State Treasury for the upgrade of these common user facilities however Mount Gibson has offered to fund the construction of the facilities. Mount Gibson is currently negotiating the terms and conditions of funding and constructing the TUU with the GPA.



Figure 18 - Berth 5 Storage Facility cladding in progress

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QUARTERLY REPORT



Attribution

The information in this report that relates to Exploration Results is based on information compiled by David Larsen, who is a member of the Australian Institute of Geoscientists. David Larsen is a full time employee of the company, and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity he is undertaking, to qualify as a Competent Person as defined in the December 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. David Larsen consents to the inclusion in the report of the matters based on his information in the form and context in which it appeared.

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

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

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