Mount Gibson Iron

Mount Gibson Iron Limited

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

SUBJECT: 31 DECEMBER 2008 HALF-YEAR FINANCIAL STATEMENTS

Mount Gibson Iron Limited ("**Mount Gibson**") (ASX Code MGX) is pleased to announce a net profit after tax of $13.3 million for the 6 months ended 31 December 2008.

The key financial results for each of the last 3 consecutive six month periods is summarised as follows:

		6 months ended 31 Dec 2007	**6 months ended 30 June 2008**	**6 months ended 31 Dec 2008**	**% increase / (decrease) over previous corresponding 6 months**
Tonnes mined	*wmt mill*	3.35	3.54	**2.79**	*(17%)*
Tonnes sold	*wmt mill*	2.59	2.88	**2.39**	*(8%)*
Revenue	*$ mill*	176.2	258.9	**232.9**	*32%*
Operating expenses	*$ mill*	(130.1)	(141.2)	**(158.0)**	*21%*
Foreign exchange derivatives mark-to-market loss - unrealised	*$ mill*	-	-	**(54.8)**	*100%*
Operating profit before tax	***$ mill***	**46.1**	**117.7**	**20.1**	*(56%)*
Tax expense	*$ mill*	(14.0)	(36.5)	**(6.8)**	*(51%)*
Net profit after tax	*$ mill*	**32.1**	**81.2**	**13.3**	*(59%)*
Total assets	*$ mill*	721.9	894.0	**1,033.7**	*43%*
Shareholders funds	*$ mill*	492.5	596.5	**590.2**	*20%*
EPS – continuing operations	*cents/share*	4.06	10.19	**1.66**	*(59%)*
NAV per share	*$/share*	0.62	0.74	**0.64**	*3%*

The 31 December 2008 half-year Net Profit result of $13.3 million was achieved in a deteriorating iron ore volume and price environment. The two quarters that made up the half-year contrasted markedly with each other, with operational performance, ore sold and prices received in the first quarter delivering record quarterly revenue and profit, which was subsequently eroded in the second quarter as a result of rapidly deteriorating iron ore market and the failure of a number of existing customers to collect allocated iron ore cargoes in breach of their agreements with Mount Gibson.

This failure of a number of customers to honour their agreements in the second quarter placed Mount Gibson under significant operational and financial strain, causing the company to undertake operational changes focussed on reducing cash expenditure whilst attempting to sell existing iron ore production.

Consequently, the Extension Hill Hematite Project was suspended and operations tentatively deferred to 2010, waste development at Tallering Peak was deferred until the second half of 2009 and waste development and project development at Koolan Island's Main Pit was deferred indefinitely. Mount Gibson managed to stem significant cash expenditure as a result of its actions, however it was unfortunate these risk mitigating strategies led to approximately 200 employee terminations.

The continued refusal of certain existing customers to collect allocated cargoes placed Mount Gibson's going concern status in jeopardy and as a consequence Mount Gibson sought to:

1. negotiate short term ore purchase agreements;
2. negotiate medium term ore purchase agreements to replace existing agreements that had been terminated;
3. negotiate long term ore purchase agreements for all of Mount Gibson's existing and future production from Tallering Peak, Koolan Island and Extension Hill; and
4. raise sufficient capital to ensure existing operational plans could be executed.

Short term ore purchase agreements were executed with APAC Resources Limited (**APAC**) and Shougang Concord International Enterprises Company Limited (**Shougang Concord**) for Mount Gibson's available production to the end of December 2008 whilst shareholders approved:

1. Medium Term and Long Term Offtake Agreements with APAC and with Shougang Concord;
2. the underwriting of the rights issue by APAC and Shougang Concord to raise A$96 million; and
3. the placement of 110 million Mount Gibson shares to Shougang Concord to raise A$66 million.

The rights issue and the placement to Shougang Concord were completed in early January 2009, placing Mount Gibson in a sound financial position.

Mount Gibson was required by its debt facility providers to hedge a minimum of 50% of the next 12 months' forecast US$ receipts and 70% all of senior debt interest as part of the risk management framework. As a consequence of the failure of some existing customers to collect cargoes resulting in significantly reduced US$ revenues for the 2008/2009 financial year and the significant deterioration in the A$:US$ exchange rate, Mount Gibson has recorded an unrealised foreign exchange derivatives mark-to-market loss of A$54.8 million. In February 2009, Mount Gibson signed a Term Sheet and Mandate Letter with its Banking Syndicate to amend the Senior debt facility and Contingent Instrument facility and to roll forward forecast excess US$ foreign exchange forward contracts in the 2008/2009 financial year amounting to US$185 million into subsequent financial periods. This will reduce Mount Gibson's obligation to cash settle any forward contracts not needed for coverage of monthly operational US$ income in the period January to June 2009. This amended US dollar foreign exchange forward profile will ensure, given forecast iron ore sales, sufficient USD will be generated to cover the rolled hedge position. The Amended Facility Agreement is currently being finalised and is expected, subject to final Credit Committee approval, to be signed in March 2009 with conditions precedent normal to this type of facility which are expected to be satisfied shortly thereafter.

Mount Gibson has successfully navigated through a very difficult global down turn in iron ore demand and a rapidly deteriorating world financial market. The short to medium outlook for the iron ore market appears volatile however Mount Gibson has positioned itself well to withstand this market uncertainty and volatility.

The appendix 4D and half year financial statements are attached.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

David Berg
Company Secretary

Enquiries: **Mr Luke Tonkin** Managing Director Telephone: 61 8 9426-7500
or
Mr Alan Rule Chief Financial Officer
Email: admin@mtgibsoniron.com.au

APPENDIX 4D

This Half Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3

Current Reporting Period: 31 December 2008

Previous Corresponding Period: 31 December 2007

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		A$ mill
Revenue from ordinary activities	up 32% to	$232.9
Profit from ordinary activities after tax attributable to members	down 59% to	$13.3
Net profit for the period attributable to members	down 59% to	$13.3

DIVIDENDS

No dividends have been paid or declared during the year

NET TANGIBLE ASSET BACKING

Consolidated Entity		2008	2007
Net Tangible Assets	*$ mill*	590.2	492.5
Fully paid ordinary shares on issue at Balance Date		914,355,821	793,086,821
Net tangible asset backing per issued ordinary share as at balance date (cents)	*c/share*	64.5	62.1

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

None.

STATUS OF AUDIT

This Half Year Report is based on accounts that have been reviewed.

COMMENTARY

It is recommended that the half-year report is read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2008 together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2008 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

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED

31 DECEMBER 2008

Financial Report

For the half-year ended 31 December 2008

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2008 for the consolidated entity incorporating Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the entities that it controlled during the half-year ("**Consolidated Entity**").

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Neil Hamilton	*Chairman*
Luke Tonkin	*Managing Director*
Craig Readhead	*Non-Executive Director*
Ian Macliver	*Non-Executive Director*
Alan Jones	*Non-Executive Director*
Cao Zhong	*Non-Executive Director (appointed 2 December 2008)*
Chen Zhouping	*Non-Executive Director (appointed 19 January 2009)*
Alan Rule	*Alternate Director to Luke Tonkin*
Robert Willcocks	*Alternate Director to Cao Zhong (appointed 22 December 2008)*

Angela Dent resigned as Company Secretary on 21 August 2008. David Berg was appointed Company Secretary on 21 August 2008.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated half-year financial report incorporating the entities that it controlled during the half-year.

Nature of Operations and Principal Activities

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

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

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

- During November and December, 2008 ("**Short Term Offtake**") APAC and Shougang Concord would purchase all of the Consolidated Entity's available production at US$40 per WMT;
- Between 1 January and 30 June 2009 ("**Medium Term Offtake**") Shougang Concord would purchase all of the Consolidated Entity's available production at US$56 per WMT;
- From 1 July 2009 onwards ("**Long Term Offtake**") APAC and Shougang Concord would purchase all of the Consolidated Entity's available production at Hamersley benchmark price less 10%;
- APAC and Shougang Concord would underwrite a 1 for 5 renounceable rights issue at A$0.60 per share to raise gross proceeds of A$96.5 million ("**Rights Issue & Underwriting**"); and
- Shougang Concord would subscribe for a placement of 110 million ordinary shares at A$0.60 per share to raise an additional A$66 million ("**Placement**").

The following approvals were required for these agreements:

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

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

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

At completion of the Placement and Rights Issue:

- APAC owned 279.9 million shares in the Company representing 26.03 % of the issued share capital; and
- Shougang Concord owned 154.2 million shares in the Company representing 14.34 % of the issued share capital

The impact of some of its customers defaulting on the Company's near term cash flows, together with the desire of the Company to continue priority development at Koolan Island and Extension Hill required the raising of additional equity finance. The Rights Issue and Placement together raised gross proceeds of A$162.5 million. Together with existing cash reserves, the additional funds raised will better place the Company to continue priority development activities and mitigate the impact on the Company of any near term volatility in the iron ore and financial markets.

Until November 2008, the Company 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 Company to sell ore at prices determined by reference to the Hamersley Benchmark Iron Ore Price. During the December quarter the Company announced that a number of its customers had failed to collect iron ore cargoes in accordance with binding purchase agreements. Agreements with three of these customers have subsequently been terminated in accordance with their terms; a dispute with a further customer has been referred to arbitration for determination whilst the Company has reached mutually acceptable shipping schedules for the remaining contract year with the remainder of its original customer base. The Company is seeking legal advice relating to defaulting customers and those customers whose agreements have been terminated.

The Company will be pursuing those customers who materially breached their offtake agreements to recover from them any losses arising from volume and price differences between the customers' existing offtake agreements and the new offtake agreements. There is a risk that customers who have been terminated may claim that the termination is not justified and take proceedings against the Company.

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

The Company temporarily suspended development activities at the main pit of Koolan Island and expects to recommence in July 2009, subject to prevailing market conditions. This deferred the commencement of ore mining from Main Pit for a minimum of 6 months. Sufficient ore is available within the satellite deposits at Koolan Island to continue producing saleable product during this delay.

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

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

The Company 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$. The Company uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of these forecast sales transactions in accordance with its risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings attributable to changes in the US$/A$ exchange rate and to protect against undue adverse movements in these rates. Consistent with both company policy and minimum bank mandated hedging requirements, the Company had, by the end of September 2008, entered into foreign exchange forward contracts to cover approximately 40% of its budgeted US$ exposure over the combined 2008/2009 and 2009/2010 financial years.

As a consequence of the forecast reduction in revenue from October 2008 to June 2009, the Company had outstanding US dollar foreign exchange forward contracts totalling US$186.5 million in excess of forecast US$ revenues for that period – note 9 to this Half-Year Financial Report sets out the proposed restructure of part of the foreign exchange hedge portfolio.

DIVIDENDS

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

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

Summarised operating results for the Consolidated Entity for the half-year ended 31 December 2008 were:

	CONSOLIDATED	
	31 December 2008 $'000	**31 December 2007 $'000**
Operating profit from Continuing Operations before tax	**20,122**	**46,123**
Taxation expense	(6,793)	(13,988)
Net profit after tax attributable to Members of the Company	**13,329**	**32,135**

The Operating Profit from Continuing Operations before tax includes a $54.8 million mark-to-market loss relating to forecast excess foreign exchange hedging in the November 2008 to June 2009 period as the ineffectiveness commenced in November 2008.

Tallering Peak Hematite Operations

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

Total material movement was reduced by 25% at Tallering Peak during the December quarter compared with the September quarter. To minimize cash expenditure during the next six months without compromising ore production, the T6A3 cutback was divided into two staged cutbacks namely the T6A3a and T6A3b. Initially production for the half focused on pre-strip of the T6A3 cutback however the modification of the mine plan in the December quarter focused production on the T6A3b cutback with high grade ore being sourced from the T6A1 and T6A2 cutbacks as required. Excess equipment engaged in the T6A3 cutback was demobilized resulting in a reduction of 40 employees across the site and mine operations were shut down for two weeks in December to minimize cash expenditure whilst drawing down on existing ore stockpiles at the mine and Ruvidini rail yard. Minor capital projects were suspended and this, combined with a reduction in physical activity on the site, reduced mine expenditure significantly. Crusher maintenance was performed during October and November whilst throughput requirements were reduced. Shipping rates in the first two months of the December 2008 quarter were down on the previous quarter however Tallering Peak shipped a record 6 shipments (≈356Kt) from the Geraldton Port in December to existing and new customers.

With shipping schedules in place for the remainder of the financial year, 1.7 million tonnes of iron ore stockpiled as at 31 December 2008 and high grade ore exposed in the T6A1 and T6A2 cutbacks, strong shipping is anticipated for the second half of the 2009 financial year.

PRODUCTION SUMMARY FOR 6 MONTHS	Unit	Sept Qtr 2008 '000	Dec Qtr 2008 '000	YTD 2008 '000	YTD 2007 '000	*% incr / (decr)*
Mining						
- Waste Mined	*bcm*	2,464	1,825	**4,289**	*5,214*	***(17.7%)***
- Ore Mined	*wmt*	623	570	**1,193**	*1,768*	***(32.5%)***
Crushing						
- Lump	*wmt*	487	282	**769**	*952*	***(19.2%)***
- Fines	*wmt*	312	199	**511**	*603*	***(15.2%)***
Total	*wmt*	**799**	**481**	**1,280**	*1,555*	***(17.6%)***
Transport to Mullewa Railhead						
- Lump	*wmt*	452	301	**753**	*870*	***(13.4%)***
- Fines	*wmt*	381	157	**538**	*486*	***10.7***
Total	*wmt*	**833**	**458**	**1,291**	*1,356*	***(4.8%)***
Transport to Geraldton Port						
- Lump	*wmt*	320	236	**556**	*805*	***(30.9)***
- Fines	*wmt*	344	258	**602**	*354*	***70.0%***
Total	*wmt*	**664**	**494**	**1,158**	*1,159*	***0.0%***
Shipping						
- Lump	*wmt*	351	235	**586**	*855*	***(31.5%)***
- Fines	*wmt*	305	294	**599**	*355*	***68.7%***
Total	*wmt*	**656**	**529**	**1,185**	*1,210*	***(2.1%)***

Significant expenditure on waste development at Tallering Peak during the half-year was as follows:

		6 Months ended 31 Dec 2008	6 Months ended 30 June 2008	6 Months ended 31 Dec 2007	6 Months ended 30 June 2007
Waste mined	*mill bcm*	4.3	4.2	5.2	4.8
Waste expenditure capitalised	*$ mill*	50.6	46.6	51.0	49.6
Waste expenditure amortised	*$ mill*	(35.6)	(43.6)	(37.1)	(21.1)

Koolan Island Hematite Project

Koolan Island started the financial year as forecast with strong ore sales and record material movements in the September quarter. Operations at Koolan Island were modified substantially in the December Quarter resulting from iron ore customers either deferring shipments or failing to collect cargoes in accordance with binding iron ore purchase agreements. Mount Gibson moved quickly to minimise cash expenditure by reducing mine operating activity, reducing equipment and personnel requirements and suspending capital project activity.

As a consequence of these measures, equipment utilised on short term hire agreements was demobilized, seawall construction suspended, Main Pit Footwall rehabilitation suspended, Main Pit dewatering scaled back, non critical capital works suspended, Main West cut back suspended, Blinker Hill cut back suspended and Crusher Hill cut back suspended, resulting in a reduction of the contract workforce of 160 personnel and a reduction in total material movement of 32% compared with the previous quarter whilst ore production was reduced by 23% when compared with the previous quarter.

With the suspension of both the Main Pit cut back and Main West Pit, operations focused on the East-Barramundi and Mullet-Acacia pits. The small Barramundi East Pit was completed in the December quarter and backfilling of this open pit commenced.

Mullet-Acacia Pit and East-Barramundi Pit will dominate ore production for the next 12 months at Koolan Island with development of Main Pit and the Main West cut back recommencing in June 2009, subject to prevailing market conditions. Access to high grade and quality iron ore from Main Pit is scheduled in 2010/11 assuming the Main Pit cut back resumes in July 2009.

Koolan Island enters the wet season from December to February when shipments are normally scheduled to decline however as a consequence of some customers failing to collect these cargoes and Mount Gibson's replacement offtake agreement with Shougang Concord, Mount Gibson is forecasting a 75-80% increase in sales in the March quarter compared with the December quarter and second half sales of approximately 1.6 million tonnes.

PRODUCTION SUMMARY FOR 6 MONTHS	Unit	Sept Qtr 2008 '000	Dec Qtr 2008 '000	YTD 2008 '000	YTD 2007 '000	*% incr / (decr)*
Mining						
- Waste mined	*bcm*	3,998	2,747	**6,745**	*3,922*	***72.0%***
- Ore mined	*wmt*	902	696	**1,598**	*1,580*	***1.1%***
Crushing						
- Lump	*wmt*	368	157	**525**	*683*	***(23.1%)***
- Fines	*wmt*	609	299	**908**	*742*	***22.4%***
Total		**977**	**456**	**1,433**	*1,425*	***0.6%***
Shipping						
- Lump	*wmt*	361	222	**583**	*680*	***(14.3%)***
- Fines	*wmt*	415	209	**624**	*700*	***(10.9%)***
Total		**776**	**431**	**1,207**	*1,380*	***(12.5%)***

Significant expenditure on waste development at Koolan Island during the half-year was as follows:

		6 Months ended 31 Dec 2008	6 Months ended 30 June 2008	6 Months ended 31 Dec 2007	6 Months ended 30 June 2007
Waste mined	*mill bcm*	6.7	4.6	3.9	1.7
Waste expenditure capitalised	*$ mill*	88.1	70.3	55.2	7.9
Waste expenditure amortised	*$ mill*	(47.9)	(26.6)	(28.7)	(1.9)

Extension Hill Direct Shipping Ore Project

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

During the 2007/08 financial year the Mount Gibson Board approved the Detailed Feasibility Study ("**DFS"**) for production and sale of 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore project ("**DSO Project"**). The DFS evaluated multiple operating options with related costs, timing and risks. The study demonstrated that the project will provide strong financial returns in a short time-frame, with minimal technical risks and relatively low capital requirements.

Development and construction commenced in October 2007 with the commencement of operations at Extension Hill originally scheduled for the June quarter of 2009.

As a result of customer offtake defaults, in November 2008, Mount Gibson announced that all works associated with the Extension Hill Project would be suspended. Mount Gibson has tentatively scheduled a 12 month suspension of the Extension Hill project and expects that first ore from the Extension Hill mine will now be shipped in the March quarter of 2010. Market conditions will however ultimately dictate the timing of bringing the Extension Hill mine into production. All contracts with key suppliers have been reviewed and appropriate suspensions and terminations executed with no material penalties being incurred.

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

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

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

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

Contract works associated with the realignment of Great Northern Highway (GNH) were suspended during the December quarter with components purchased and / or fabricated for the GNH bridge overpass being warehoused. Re-fencing of private agricultural property boundary lines where the company has acquired freehold land to upgrade the haul road between the mine and Perenjori was also completed during the half whilst water supply bores for use during road construction were also equipped and commissioned.

A 17 km water supply pipeline was installed from the Company's licensed bore-field located north east of Perenjori to the Perenjori rail siding area for the ongoing supply of process water to the rail siding area and upgrade work on the existing rail line between Perenjori and Geraldton commenced but suspended early in the December quarter following discussions with track owner Westnet. Certification of new rail wagon design for the Extension Hill project was obtained during the half with fabrication and delivery of these wagons scheduled to occur over the course of the next half.

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

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

A 21,000 metre reverse circulation resource infill drilling commenced at Extension Hill in late November with 3,382 metres completed by the end of December. The drilling will enable a new high quality resource and reserve estimate to be undertaken, including the definition of material types, required to ensure a high quality end product is produced.

SIGNIFICANT EVENTS AFTER BALANCE DATE

- As a consequence of the following issue of shares after balance date, there are currently 1,075,228,611 fully paid ordinary shares on issue:
  - On 12 January 2009, 160,872,790 fully paid ordinary shares were issued at A$0.60 per share pursuant to the Rights Issue to raise $96.5 million (before issue expenses).
- The Company signed a Term Sheet and Mandate Letter with its Banking Syndicate to:
  - amend the Corporate Debt and Contingent Debt facility as set out in note 5 to this Half-Year Financial Report; and
  - restructure part of its foreign exchange hedge portfolio as set out in note 9 to this Half-Year Financial Report.
- On 12 January 2009, the Company issued 7,250,000 options that are exercisable at $2.99 each and expire on 31 December 2009.

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.

Auditor's Independence Declaration

We have obtained the following independence declaration from our auditors, Ernst and Young.

ERNST & YOUNG

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

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

In relation to our review of the financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A. Buckingham
Partner
27 February 2009

Liability limited by a scheme approved under Professional Standards Legislation.

Signed in accordance with a resolution of the Directors.

Neil Hamilton
Director
Perth, Western Australia
27 February 2009

Income Statement

For the half-year ended 31 December 2008

	Notes	CONSOLIDATED 31 December 2008 $'000	CONSOLIDATED 31 December 2007 $'000
CONTINUING OPERATIONS			
Sale of goods	3[a]	230,243	174,854
Other revenue	3[a]	2,690	1,343
TOTAL REVENUE		**232,933**	**176,197**
Cost of sales	3[d]	(124,331)	(115,735)
GROSS PROFIT		**108,602**	**60,462**
Other income	3[b]	-	2,561
Foreign exchange derivatives mark-to-market loss - unrealised	3[d], 9	(54,828)	-
Other expenses	3[d]	(24,671)	(9,788)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND FINANCE COSTS		**29,103**	**53,235**
Finance costs	3[c]	(8,981)	(7,112)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		**20,122**	**46,123**
Income tax (expense)		(6,793)	(13,988)
NET PROFIT FOR THE PERIOD AFTER INCOME TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**13,329**	**32,135**

Earnings per share (cents per share):

- basic earnings per share		1.66	4.06
- diluted earnings per share		1.66	3.99

Balance Sheet

As at 31 December 2008

	Notes	CONSOLIDATED 31 December 2008 $'000	30 June 2008 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		137,125	48,658
Trade and other receivables		31,689	83,436
Inventories		105,599	71,448
Prepayments		4,754	1,570
Derivatives		259	25,161
Other		5,105	-
TOTAL CURRENT ASSETS		**284,531**	**230,273**
NON-CURRENT ASSETS			
Trade and other receivables		-	1,000
Available for sale financial assets		209	1,113
Property, plant and equipment		197,139	188,497
Deferred acquisition, exploration, evaluation and development costs		48,627	25,919
Mine properties		503,220	447,235
TOTAL NON-CURRENT ASSETS		**749,195**	**663,764**
TOTAL ASSETS		**1,033,726**	**894,037**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		68,669	73,406
Interest-bearing loans and borrowings	5	121,950	12,415
Derivatives	9	155,605	342
Provisions		2,427	1,880
Income tax payable		1,656	-
TOTAL CURRENT LIABILITIES		**350,307**	**88,043**
NON-CURRENT LIABILITIES			
Provisions		19,164	19,112
Interest-bearing loans and borrowings	5	62,175	145,858
Deferred income tax liabilities		11,922	44,532
TOTAL NON-CURRENT LIABILITIES		**93,261**	**209,502**
TOTAL LIABILITIES		**443,568**	**297,545**
NET ASSETS		**590,158**	**596,492**
EQUITY			
Issued capital	6	461,888	397,197
Retained earnings		184,534	171,205
Reserves		(56,264)	28,090
TOTAL EQUITY		**590,158**	**596,492**

Cash Flow Statement

For the half-year ended 31 December 2008

	Notes	CONSOLIDATED	
		31 December 2008	**31 December 2007**
		$'000	**$'000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		285,964	158,750
Payments to suppliers and employees		(201,875)	(153,880)
Interest paid		(7,723)	(6,608)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		**76,366**	**(1,738)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,405	1,172
Proceeds from sale of property, plant and equipment		-	240
Purchase of property, plant and equipment		(7,999)	(13,420)
Payment for deferred exploration, evaluation and development expenditure		(23,042)	(2,379)
Payment for mine development		(12,764)	(1,794)
Purchase of available for sale investments		-	(168)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		**(41,400)**	**(16,349)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		66,442	2,665
Payment for capital raising costs		(788)	-
Loans from/(to) other entities		-	236
Payment for performance bonds		(5,105)	-
Proceeds from borrowings		-	93,000
Repayment of lease liabilities		(6,022)	(5,625)
Repayment of borrowings		-	(87,095)
Borrowing costs		(1,026)	(3,475)
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		**53,501**	**(294)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		88,467	(18,381)
Cash and cash equivalents at beginning of period		48,658	60,798
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4[a]	**137,125**	**42,417**

Statement of Changes in Equity

For the half-year ended 31 December 2008

	Attributable to Equity Holders of the Parent					
CONSOLIDATED	**Issued Capital**	**Share Based Payments Reserve**	**Retained Earnings**	**Net Unrealised Gains / (Losses) Reserve**	**Other Reserves**	**Total Equity**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 1 July 2007	**386,766**	**8,911**	**57,861**	**3,963**	**(3,192)**	**454,309**
Impairment of available-for-sale financial assets	-	-	-	(265)	-	**(265)**
Net gains on cash flow hedges	-	-	-	1,620	-	**1,620**
Deferred income tax on capital raising costs	100	-	-	-	-	**100**
Total income and expense for the period recognised directly in equity	**100**	**-**	**-**	**1,355**	**-**	**1,455**
Profit for the period	-	-	32,135	-	-	**32,135**
Total income and expense for the period	**100**	**-**	**32,135**	**1,355**	**-**	**33,590**
Exercise of options	2,665	-	-	-	-	**2,665**
Cost of share-based payment	-	1,900	-	-	-	**1,900**
At 31 December 2007	**389,531**	**10,811**	**89,996**	**5,318**	**(3,192)**	**492,464**
At 1 July 2008	**397,197**	**14,510**	**171,205**	**16,772**	**(3,192)**	**596,492**
Net loss on cash flow hedges	-	-	-	(155,692)	-	**(155,692)**
Cash flow hedge ineffectiveness recognised in profit and loss	-	-	-	68,570	-	**68,570**
Capital raising costs	(1,679)	-	-	-	-	**(1,679)**
Deferred income tax on capital raising costs	(72)	-	-	-	-	**(72)**
Total income and expense for the period recognised directly in equity	**(1,751)**	**-**	**-**	**(87,122)**	**-**	**(88,873)**
Profit for the period	-	-	13,329	-	-	**13,329**
Total income and expense for the period	**(1,751)**	**-**	**13,329**	**(87,122)**	**-**	**(75,544)**
Placement of shares	66,000	-	-	-	-	**66,000**
Exercise of options	442	-	-	-	-	**442**
Cost of share-based payment	-	2,768	-	-	-	**2,768**
At 31 December 2008	**461,888**	**17,278**	**184,534**	**(70,350)**	**(3,192)**	**590,158**

Notes to the Half-Year Financial Report (continued)

Notes to the Half-Year Financial Report

For the half-year ended 31 December 2008

1. CORPORATE INFORMATION

The financial report of Mount Gibson Iron Limited for the half-year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 27 February 2009.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Consolidated Entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Mount Gibson Iron Limited as at 30 June 2008. It is also recommended that the half-year financial report be considered together with any public announcements made by Mount Gibson Iron Limited during the half-year ended 31 December 2008 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and Stock Exchange Listing Rules.

(a) Basis of preparation

The half-year financial report is a general-purpose condensed financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*.

The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments and quoted available-for-sale financial assets that have been measured at fair value.

At 31 December 2008 there was a net current asset deficiency of $65.8 million due to classification of the Senior Debt Facility as a current liability whilst the FX hedge book is being restructured. The net current asset deficiency was eliminated when the proceeds of $96 million (before expenses) from the rights issue were received on 12 January 2009. Further, subsequent to year end the Company has signed a Term Sheet and Mandate Letter with its banking syndicate to amend the senior debt facility and restructure part of its foreign exchange hedge portfolio. Once completed the senior debt facility and a component of the Consolidated Entity's foreign exchange hedge portfolio will be reclassified as a non current liability.

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.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Significant Accounting Policies

These half-year financial statements have been prepared using the same accounting policies as used in the Annual Financial Report of the Company for the year ended 30 June 2008.

(c) Changes in accounting policies

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

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

- AASB 2008-10 *Amendment to Australian Accounting Standards – Reclassification of Financial Assets* (amendments to AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 7 *Financial Instruments Disclosures*)
- Interpretation 12 and AASB 2007-2 *Service Concession Arrangements* and consequential amendments to other Australian Accounting Standards
- Interpretation 129 *Service Concession Arrangements: Disclosures*
- Interpretation 4 (revised) *Determining whether an arrangement contains a lease*
- Interpretation 13 *Customer Loyalty Programmes*
- Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED	
		31 December 2008 $'000	31 December 2007 $'000
3. REVENUE AND EXPENSES			
[a] Revenue			
Sale of ore		230,243	174,854
Other revenue			
Finance income		2,690	1,343
[b] Other income			
Realised gain on foreign exchange		-	2,561
[c] Finance costs			
Loans		6,206	4,775
Finance charges payable under finance leases		2,775	2,337
		8,981	7,112
[d] Expenses included in the Income Statement include:			
Depreciation of Non-Current Assets		13,745	12,415
Amortisation of deferred waste		83,591	65,854
Amortisation of other mine properties		12,340	14,479
Operating lease rental – minimum lease payments		11,043	12,529
Exploration expenditure written off		17	73
Net loss on sale of plant and equipment		-	12
Net loss on disposal of financial assets		-	3
Government royalties		15,926	11,145
Salaries, wages expense and other employee benefits		20,947	15,002
Impairment of available-for-sale investments		904	-
Foreign exchange derivatives mark-to-market loss – unrealised	9	54,828	-
Net unrealised loss on foreign exchange		10,071	1,209
Net realised loss on foreign exchange		3,856	-

Notes to the Half-Year Financial Report (continued)

	CONSOLIDATED	
	31 December 2008 $'000	**30 June 2008 $'000**
4. CASH AND CASH EQUIVALENTS		
[a] Reconciliation of cash		
Cash at bank and in hand	107,552	33,930
Short-term deposits	29,573	14,728
	137,125	**48,658**

[b] Non-cash financing activities

During the period ended 31 December 2008, the Consolidated Entity acquired property, plant and equipment with an aggregate fair value of $14,508,222 (2007: $1,725,000) by means of finance leases and hire purchase agreements.

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED	
		31 December 2008 $'000	30 June 2008 $'000
5. INTEREST-BEARING LOANS AND BORROWINGS			
Current			
Lease liability	[a]	3,959	3,961
Hire purchase facility	[b]	15,308	8,454
Corporate Debt	[c]	105,000	-
Capitalised corporate debt facility costs		(2,317)	-
		121,950	**12,415**
Non-Current			
Lease liability	[a]	8,895	10,320
Hire purchase facility	[b]	53,280	33,931
Corporate Debt	[c]	-	105,000
Capitalised corporate debt facility costs		-	(3,393)
		62,175	**145,858**

Financing facilities available

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

	Notes	31 December 2008 $'000	30 June 2008 $'000
Total facilities:			
• Finance leases	[a]	12,854	14,281
• Hire purchase facility	[b]	68,588	42,385
• Contingent Instrument facility	[c]	25,000	25,000
• Corporate Debt	[c]	175,000	175,000
		281,442	**256,666**
Facilities used at reporting date:			
• Finance leases		12,854	14,281
• Hire purchase facility		68,588	42,385
• Contingent Instrument facility		19,566	13,816
• Corporate Debt		105,000	105,000
		206,008	**175,482**
Facilities unused at reporting date:			
• Finance leases		-	-
• Hire purchase facility		-	-
• Contingent Instrument facility		5,434	11,184
• Corporate Debt		70,000	70,000
		75,434	**81,184**

Notes to the Half-Year Financial Report (continued)

Terms and conditions relating to the above financial facilities:

[a] **Finance Lease Facility**

Finance leases are repayable monthly with final instalments due in July 2012. Interest is charged at an average rate of 8.35%. 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 April 2012. Interest is charged at an average rate of 7.43%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US$ for Komatsu and A$ for NAB.

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

In June 2007 the Company mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a $200 million debt facility to fund the refinance of the existing finance facilities and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments. The facility documentation was signed on 28 August 2007 with drawdown on 6 September 2007. In March 2008 HSBC Australia Limited and National Australia Bank Limited syndicated part of their exposure to 3 other banks (**"Banking Syndicate**")

At 31 December 2008 the $200 million facility consisted of:

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

In February 2009 the Company signed a Term Sheet and Mandate Letter with the Banking Syndicate, subject to final Credit Committee approval, to amend the Senior debt facility and Contingent Instrument facility as follows:

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

The Amended Facility Agreement is currently being finalised and is expected, subject to final Credit Committee approval, to be signed in March 2009 with conditions precedent normal to this type of facility which are expected to be satisfied shortly thereafter.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite at Extension Hill.

Notes to the Half-Year Financial Report (continued)

	Notes	CONSOLIDATED 31 December 2008 $'000	30 June 2008 $'000
6. ISSUED CAPITAL			
[a] Ordinary shares			
Issued and full paid	[b]	**461,888**	**397,197**

	31 December 2008 Number of Shares	$'000
[b] Movement in ordinary shares on issue		
Beginning of the half-year	**803,840,821**	**397,197**
Exercise of options	515,000	442
Placement at $0.60 per share	110,000,000	66,000
Capital raising costs	-	(1,679)
Deferred income tax on capital raising costs	-	(72)
End of the half- year	**914,355,821**	**461,888**

[c] Share options

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

Exercise Price	Exercise Date/Period	31 December 2008 Number	30 June 2008 Number
55 cents	On or before 31 December 2008	-	100,000
78 cents	On or before 31 December 2009	325,000	475,000
89 cents	On or before 31 December 2009	2,281,000	2,646,000
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
		9,606,000	**10,221,000**

In addition, as at 31 December 2008, there were 7,250,000 (2007: 8,625,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2008 before the options vest, at which time they will be issued to the respective employees. Once vested, these options will be exercisable at $2.99 each and expire on 31 December 2009. On 12 January 2009, the Company issued 7,250,000 Options that are exercisable at $2.99 each and expire on 31 December 2009.

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

[d] Performance rights

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

During the 6 month period to 31 December 2008, a total of 113,140 performance rights were issued.

As at 31 December 2008 there were 396,082 performance rights on issue (2007:Nil).

Notes to the Half-Year Financial Report (continued)

7. DIVIDENDS PAID AND PROPOSED

No amounts have been paid, declared or recommended by the company by way of dividend since the commencement of the half-year.

8. SEGMENT INFORMATION

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

9. FOREIGN EXCHANGE HEDGING

The Company 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$. The Company uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of these forecast sales transactions in accordance with its risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings attributable to changes in the US$/A$ exchange rate and to protect against undue 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 Company recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Company applies hedge accounting to forward foreign currency contracts that meet the criteria of cash flow hedges. The accounting policy for hedge accounting is set out in note 1(aa) to the Consolidated Financial Report for the year ended 30 June 2008.

Consistent with both company policy and minimum bank mandated hedging requirements, the Company had by the end of September 2008 entered into foreign exchange forward contracts to cover approximately 40% of its budgeted US$ exposure over the combined 2008/2009 and 2009/2010 financial years.

As at 31 December 2008, Mount Gibson had outstanding US dollar foreign exchange forward contracts for:

- US$346.2 million at an average rate of 0.8804 per US$ due to expire in the 2008/2009 financial year; and
- US$185.0 million at an average rate of 0.8109 per US$ due to expire in the 2009/2010 financial year.

As at 31 December 2008, based on the year end rate of 0.6928 the mark-to-market loss on the total outstanding US dollar foreign exchange forward contracts of US$531.2 million was $155.6 million.

As at 31 December 2008, outstanding US dollar foreign exchange forward contracts totalling US$186.5 million did not qualify as 'effective hedges' under the Company's hedge accounting policy. Consequently, as at 31 December 2008, an accounting mark-to-market loss of A$54.8 million (pre-tax) was recorded in the Income Statement. $67.5 million (after tax) remains deferred in the Net Unrealised Gains/(Losses) Reserve as it continues to qualify for hedge accounting under AASB 139.

Subsequent to 31 December 2008, pursuant to the signed Term Sheet and Mandate Letter, the Company's Banking Syndicate intend to roll forward forecast excess US dollar foreign exchange forward contracts in the 2008/2009 financial year amounting to US$185 million into subsequent financial periods. This will reduce the Company's obligation to cash settle any forward contracts not needed for coverage of monthly operational US$ income in the period January to June 2009.

Subject to signing the Amended Facility Agreement and satisfaction of conditions precedent, the restructured US dollar foreign exchange forward contract profile will be:

- US$159.5 million due to expire in the period January to June 2009;
- US$265.5 million due to expire in the 2009/2010 financial year; and
- US$106.2 million due to expire in the 2010/2011 financial year

Notes to the Half-Year Financial Report (continued)

10. EVENTS AFTER THE BALANCE SHEET DATE

- As a consequence of the following issue of shares after balance date, there are currently 1,075,228,611 fully paid ordinary shares on issue:
    - On 12 January 2009, 160,872,790 fully paid ordinary shares were issued at A$0.60 per share pursuant to the Rights Issue to raise $96.5 million (before issue expenses).
- The Company signed a Term Sheet and Mandate Letter with its Banking Syndicate to:
    - amend the Corporate Debt and Contingent Debt facility as set out in note 5 to this Half-Year Financial Report; and
    - restructure part of its foreign exchange hedge portfolio as set out in note 9 to this Half-Year Financial Report.
- On 12 January 2009, the Company issued 7,250,000 options that are exercisable at $2.99 each and expire on 31 December 2009.

11. COMMITMENTS

At 31 December 2008 the Consolidated Entity has commitments of:

- $5 million (30 June 2008: $13 million) relating to operating leases for the provision of mobile fleet equipment and office rental;
- $81 million (30 June 2008: $57 million) under finance leases and hire purchase liabilities; and
- $40 million (30 June 2008: $40 million) in relation to performance bonds to be issued progressively by 30 June 2009 pursuant to the Extension Hill rail contracts. At 31 December 2008 performance bonds totalling $10 million had been issued.

12. CONTINGENCIES

There are no contingent liabilities or contingent assets as at the date of this report.

Directors' Declaration

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

In the opinion of the Directors:

a. the financial statements and the notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

   i) giving a true and fair view of the financial position as at 31 December 2008 and the performance for the half-year ended on that date of the Consolidated Entity; and

   ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the directors.

Neil Hamilton
Director

Perth, 27 February 2009

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To the members of Mount Gibson Iron Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mount Gibson Iron Limited which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Mount Gibson Iron Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

Ernst & Young

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mount Gibson Iron Limited is not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

G A Buckingham

G A Buckingham
Partner
Perth

27 February 2009