Mount Gibson Iron

Mount Gibson Iron Limited
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The Manager
Company Announcements
Australian Stock Exchange Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

SUBJECT: MOUNT GIBSON IRON ANNOUNCES HALF YEAR PROFIT AND REVISED PROFIT FORECAST FOR SECOND HALF OF 2004-05

Mount Gibson Iron Limited (MGX) is pleased to announce a net profit of $6.1 million for the half year ending 31 December 2004. There is no tax liability on this amount which is above budget for the first half and in line with the forecast full year profit of $12.6 million announced to the market in September 2004.

The Company has achieved strong operating cash flows of $13.5 million for the half year which have been utilised to reduce debt and develop the Tallering Peak mine to access ore at increasing volumes. In particular, the US$6.0 million facility provided in January 2004 by a shareholder, Stemcor (S.E.A.) Limited, has been reduced to a current balance of US$2.4 million, which is expected to be repaid by June 2005.

We are also pleased that Convertible Note holders have shown their confidence in the Company, by converting $1.925 million of debt to equity since 31 December 2004. The Convertible Note liability of $2.375 million has now been reduced to $450,000.

The Directors are confident that previously forecast production and shipping schedules will be achieved this financial year and with the recently announced 71.5% increase in iron ore prices (which will apply from 1 April 2005), second half profits are now expected to be in the order of $15.0 million.

The Company will provide revised forecasts for 2005-06 when negotiations have been completed for the purchase 33 additional rail wagons and a firm delivery date established that will allow production from the Tallering Peak mine to be increased from 2.0Mtpa to 3.0Mtpa.

The results of recent in-fill drilling and associated mine planning at Tallering Peak will allow the mine life to be established within the next two to three months. Early indications are that the mine can be operated at the current production rate until the end of 2005, and then at 3.0Mtpa for five years before the mining operation is relocated to Mt Gibson where it should continue for another five years.

During the half year, Mount Gibson Iron subscribed $500,000 to gain a strategic shareholding in Resource Mining Corporation Limited, which owns iron ore tenements in the Kimberley region of Western Australia. Since year end the level of investment has increased by $375,000 through receipt of a recent placement and on-market purchases. The Company now holds 5.7% of Resource Mining Corporation Limited, and its $875,000 investment is currently valued by the market at approximately $2.4 million (including all shares and free attaching options).

The Company has recently decided to increase its shareholding in Asia Iron Holdings Limited from 61%, up to a minimum of 75%, to gain greater exposure to pellet production in China. As a consequence it will be necessary for Mount Gibson Iron to raise further capital as the project progresses so as to increase its equity.

Results of the preliminary financial analysis for the proposed 5.0Mtpa pellet project, which will be carried out in a 50:50 joint venture between Asia Iron and the Nanjing Iron and Steel Group, will be advised to the market when the current bankable feasibility study is sufficiently advanced to be able to confirm the robust preliminary figures.

Yours sincerely
MOUNT GIBSON IRON LIMITED

Brian Johnson

Brian Johnson
Managing Director

Enquiries: Mr Bill Willis
Chairman
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Mount Gibson Iron

MOUNT GIBSON IRON LIMITED

ABN 87 008 670 817

HALF-YEAR FINANCIAL REPORT

For the half-year ended

31 DECEMBER 2004

Half Year Financial Report

For The Half-Year Ended 31 December 2004

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2004.

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.

Bill Willis (Chairman)

Brian Johnson (Managing Director)

Craig Readhead (Non-Executive Director)

Ian Macliver (Non-Executive Director)

REVIEW AND RESULTS OF OPERATIONS

The Tallering Peak iron ore operations produced 906,000 tonnes of ore for the half year, which is in accordance with the budgeted rate of 1.8 Mtpa. The Company also shipped 936,000 tonnes of ore from the port of Geraldton. This has been an outstanding result in light of continued problems with the railing contractor's inability to provide sufficient suitable wagons to support the current production rate. As a consequence, Mount Gibson Iron Limited has been required to incur additional trucking and handling expenses (above normal railing costs) to ensure that the shipping schedule was achieved.

The Group recorded a half-year profit of $6,053,382 (2003: loss $10,358,935).

SIGNIFICANT EVENTS AFTER BALANCE DATE

Since 31 December 2004, 6,416,667 convertible notes have been converted into ordinary shares. This has reduced the convertible note liability (see Note 11) from $2,375,000 to $450,000. As a consequence of these conversions, contributed equity has been increased by $1,925,000.

In January 2005, Mount Gibson Iron announced that it had revised its proposed commercial arrangements with Asia Iron Holdings Limited ("Asia Iron"). Mount Gibson Iron currently owns a 54% shareholding in Extension Hill Pty Ltd (formerly Asia Iron Pty Ltd), which holds a number of mining and exploration tenements at Mt Gibson including a 230 Mt magnetite resource at Extension Hill. Asia Iron recently acquired a 46% minority shareholding in Extension Hill Pty Ltd.

The Company will effect a reorganisation of the way in which it holds its interest in the Extension Hill deposit by transferring its 54% interest shareholding in Extension Hill Pty Ltd to Asia Iron in exchange for a 54% shareholding in Asia Iron. Mount Gibson Iron will be issued 67.5 million shares by Asia Iron at HK$1.00 each which is approximately equivalent to A$11.0 million.

All tenements in the Mt Gibson range held by Extension Hill Pty Ltd and not required for the development of the Extension Hill mine, will be retained by Mount Gibson Iron. The Company has also gained the right to mine and sell all hematite resources at Extension Hill and at any other tenement held by Asia Iron in Western Australia. Mount Gibson Iron is negotiating a 20 year contract to manage the operation of the Extension Hill magnetite mine and will be also be engaged to manage any other magnetite mine developed by Asia Iron in Western Australia within the next 10 years.

In February 2005, Mount Gibson Iron announced that it had purchased 9.0 million shares in Asia Iron from two of Asia Iron's founding shareholders for $2.475 million. The purchase price was satisfied by the issue of 4.95 million Mount Gibson Iron shares at 50 cents each to the vendors.

In February 2005, 694,444 options which expire on 28 February 2006 were exercised at 15.84 cents per option, which realised $110,000.

Directors' Report continued

In February 2005, Rio Tinto announced that it had reached agreement with Nippon Steel on a 71.5% price increase for Hamersley lump and fines prices for the contract year commencing 1 April 2005. This increased the prices for lump ore to US$78.77/tonne and to US$61.72/tonne for fines ore. As all Mount Gibson Iron offtake agreements are based on the above prices for Hamersley lump and fines, the Company will benefit from the new prices for all sales from 1 April 2005.

AUDITORS INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of Mount Gibson Iron an Independence Declaration in relation to the review of the half year financial report. This Independence Declaration is attached to the Independent Review Report to the members of Mount Gibson Iron and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.

William B Willis
Chairman
Perth, 24 February 2005.

Condensed Statement of Financial Performance

For The Half-Year Ended 31 December 2004

	Note	CONSOLIDATED	
		December 2004	December 2003
		$	$
SALES REVENUE	2	33,721,198	-
Cost of sales		(26,267,010)	-
GROSS PROFIT		7,454,188	-
Other revenue from ordinary activities	2	1,894,598	748,514
Operating expenses		-	(3,548,528)
Administration expenses		(559,998)	(1,002,143)
Corporate expenses		(193,642)	(222,224)
Borrowing expenses	3	(989,238)	(486,347)
Development costs		(40,410)	(1,687,349)
Exploration expenses		(1,462,116)	-
Write-down of investment		-	(7,733,937)
Other expenses		(50,000)	-
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		6,053,382	(13,932,014)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		-	-
NET PROFIT/(LOSS)		6,053,382	(13,932,014)
NET PROFIT/(LOSS) ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST		-	(3,573,079)
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF MOUNT GIBSON IRON LIMITED		6,053,382	(10,358,935)
Capital raising costs		-	(150,000)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		6,053,382	(10,508,935)
Basic earnings/(loss) per share (cents per share)		2.07	(3.97)
Diluted earnings/(loss) per share (cents per share)		2.07	(3.97)

Condensed Statement of Financial Position

As at 31 December 2004

	Note	CONSOLIDATED	
		As At 31 December 2004	**As At 30 June 2004**
		$	$
CURRENT ASSETS			
Cash assets		7,590,357	1,784,086
Fixed deposit	4	1,790,000	1,895,000
Receivables	5	3,125,801	1,197,678
Inventories	6	3,198,408	2,797,374
Other	7	1,921,075	1,817,331
TOTAL CURRENT ASSETS		17,625,641	9,491,469
NON-CURRENT ASSETS			
Other financial assets		500,000	-
Property, plant and equipment		16,505,423	16,758,280
Deferred acquisition, exploration and development costs	8	17,889,333	17,889,333
Mine properties	9	9,549,613	8,647,663
TOTAL NON-CURRENT ASSETS		44,444,369	43,295,276
TOTAL ASSETS		62,070,010	52,786,745
CURRENT LIABILITIES			
Payables	10	9,961,834	9,813,544
Interest-bearing liabilities	11	9,495,355	7,757,213
Provisions	12	312,761	139,264
TOTAL CURRENT LIABILITIES		19,769,950	17,710,021
NON-CURRENT LIABILITIES			
Payables	10	459,627	499,648
Interest-bearing liabilities	11	7,528,075	11,178,100
TOTAL NON-CURRENT LIABILITIES		7,987,702	11,677,748
TOTAL LIABILITIES		27,757,652	29,387,769
NET ASSETS		34,312,358	23,398,976
EQUITY			
Contributed equity	13	45,708,134	40,848,134
Accumulated losses	14	(17,740,280)	(23,793,662)
Outside equity interest		6,344,504	6,344,504
TOTAL EQUITY		34,312,358	23,398,976

Condensed Statement of Cash Flows

Half-Year Ended 31 December 2004

	CONSOLIDATED	
	December 2004	**December 2003**
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	32,940,120	94,482
Payments to suppliers and employees	(18,576,699)	(4,661,057)
Interest received	21,222	138,062
Borrowing costs	(934,334)	(486,346)
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	13,450,309	(4,914,859)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	45,563	11,707
Purchase of property, plant and equipment	(221,924)	(8,049,182)
Loans from/(to) other entities	400,000	(72,189)
Purchase of controlled entity	-	(165,000)
Payment for mine development	(8,882,707)	-
Purchase of shares	(500,000)	-
CASH FLOWS USED IN INVESTING ACTIVITIES	(9,159,068)	(8,274,664)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	4,860,000	3,196,792
Payments for capital raising	-	(150,000)
Proceeds from borrowings	13,063,216	6,238,305
Repayment of lease liabilities	(926,559)	(211,294)
Repayment of borrowings	(14,308,673)	(500,000)
CASH FLOWS FROM FINANCING ACTIVITIES	2,687,984	8,573,803
NET INCREASE/(DECREASE) IN CASH HELD	6,979,225	(4,615,720)
Add opening cash brought forward	611,132	7,553,289
CLOSING CASH CARRIED FORWARD	7,590,357	2,937,569

Notes to the Financial Statements

31 December 2004

1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL REPORT

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 2004. It is also recommended that the half-year financial report be considered together with any public announcements made by Mount Gibson Iron Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

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

(b) Changes in accounting policies

The accounting policies applied are consistent with the most recent annual financial report for the year ended 30 June 2004.

	CONSOLIDATED	
	December 2004	**December 2003**
	$	$
2. REVENUE FROM ORDINARY ACTIVITIES		
Revenues from operating activities		
Revenue from sale of goods	33,721,198	-
Total revenues from operating activities	33,721,198	-
Revenues from non-operating activities		
Rent	-	34,097
Interest – other persons/ corporations	21,222	138,063
Proceeds from disposal of property, plant and equipment	45,563	11,707
Unrealised gain on foreign exchange	840,714	374,414
Recovery of development costs	986,000	-
Other revenue	1,099	190,233
Total revenues from non-operating activities	1,894,598	748,514
Total revenues from ordinary activities	35,615,796	748,514

31 December 2004

	CONSOLIDATED	
	December 2004	December 2003
	$	$
3. EXPENSES AND LOSSES		
a) **Expenses**		
Depreciation of non-current assets		
Plant and equipment	171,978	92,306
Plant and equipment under lease	885,163	268,674
Buildings	202,026	-
Buildings under lease	59,461	-
Total depreciation of non-current assets	1,318,628	360,980
Decrement in the value of land	37,059	-
Amortisation of mine properties	9,666,739	-
Borrowing costs expensed		
Interest expense		
- other	23,971	2,826
- finance lease	324,439	83,333
- hire purchase	78,179	16,602
- loans	235,392	83,982
- convertible notes	118,750	133,682
Other borrowing costs	208,507	165,922
Total borrowing costs expensed	989,238	486,347
Operating lease rental	478,273	264,942
b) **Losses/ (gains)**		
Net loss/ (gain) on disposal of property, plant and equipment	9,988	(6,225)

	Note	CONSOLIDATED	
		December 2004	June 2004
		$	$
4. FIXED DEPOSITS			
Fixed deposits		1,790,000	1,895,000
5. RECEIVABLES			
Trade debtors		1,506,341	1,046,299
Sundry debtors		1,594,210	76,650
Other receivables		25,250	74,729
		3,125,801	1,197,678
6. INVENTORIES			
Inventory – consumables		188,205	152,243
Inventory – ore		3,010,203	2,645,131
		3,198,408	2,797,374
7. OTHER ASSETS			
Deposit paid		33,250	56,109
Prepayments		400,730	411,776
Hedging foreign currency deferred loss		-	1,349,446
Hedging foreign currency receivable		1,487,095	-
		1,921,075	1,817,331
8. DEFERRED ACQUISITION, EXPLORATION AND DEVELOPMENT COSTS			
Mt Gibson Hematite		4,021,812	4,021,812
Mt Gibson Magnetite		13,867,521	13,867,521
		17,889,333	17,889,333
9. MINE PROPERTIES			
Tallering Peak Hematite acquisition costs		4,837,968	4,837,968
Mine development expenditure		19,042,491	8,473,802
		23,880,459	13,311,770
Accumulated amortisation		(14,330,846)	(4,664,107)
		9,549,613	8,647,663

Notes continued

31 December 2004

	Note	CONSOLIDATED December 2004 $	June 2004 $
10. PAYABLES			
Current			
Bank overdraft		-	1,172,954
Trade creditors		2,979,195	3,009,661
Other creditors		5,495,544	4,281,483
Hedging foreign currency payable		-	1,349,446
Hedging foreign currency deferred gain		1,487,095	-
		9,961,834	9,813,544
Non-current			
Other creditors		459,627	499,648
11. INTEREST-BEARING LIABILITIES			
Current			
Lease liability		1,818,686	1,569,362
Borrowings	(a)	1,925,546	1,016,113
Unearned revenue	(b)	3,376,123	5,171,738
Convertible notes		2,375,000	-
		9,495,355	7,757,213
Non-current			
Convertible notes		-	2,375,000
Lease liability		7,528,075	7,762,035
Unearned revenue	(b)	-	1,041,065
		7,528,075	11,178,100

(a) Packing Credit Facility held with HSBC Bank Australia Limited. Interest is payable on the outstanding balance at 4.32% p.a. This is secured by a first ranking fixed and floating charge over all Mount Gibson Mining Limited's present and future assets.

(b) Stemcor (SEA) Limited agreed to prepay Mount Gibson Mining Limited US$6 million for iron ore to be supplied under their Off-take Agreement. This is repaid over 18 months from the first shipment of ore to Stemcor (SEA) Limited in April 2004. Interest is payable on the outstanding balance of the prepayment at SIBOR plus 6%. This facility is secured by an irrevocable and unconditional guarantee by Mount Gibson Iron Limited to Stemcor, guaranteeing all Mount Gibson Mining Limited's liabilities in connection with the facility.

	CONSOLIDATED	
	December 2004 $	June 2004 $
12. PROVISIONS		
Current		
Employee benefits	187,890	124,191
Rehabilitation	124,871	15,073
	312,761	139,264
13. CONTRIBUTED EQUITY		
a) Issued and paid up capital		
Ordinary Shares fully paid	45,708,134	40,848,134

	December 2004		June 2004	
	Number of Shares	$	Number of Shares	$
b) Movements in shares on issue				
Beginning of the period	291,565,822	40,848,134	252,561,928	33,761,186
- equity placement	-	-	39,000,000	7,236,000
- exercise of Options	19,694,444	4,860,000	3,894	948
Less capital raising costs	-	-	-	(150,000)
End of the period	311,260,266	45,708,134	291,565,822	40,848,134

	CONSOLIDATED	
	December 2004 $	June 2004 $
14. ACCUMULATED LOSSES		
Accumulated losses	(17,740,280)	(23,793,662)
Balance at the beginning of the period	(23,793,662)	(12,810,751)
Net profit/(loss) attributable to members of Mount Gibson Iron Limited	6,053,382	(10,982,911)
Balance at the end of the period	(17,740,280)	(23,793,662)

15. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no change of any contingent liabilities or contingent assets.

16. SUBSEQUENT EVENTS

Since 31 December 2004, 6,416,667 convertible notes have been converted into ordinary shares. This has reduced the convertible note liability (see Note 11) from $2,375,000 to $450,000. As a consequence of these conversions, contributed equity has been increased by $1,925,000.

In January 2005, Mount Gibson Iron announced that it had revised its proposed commercial arrangements with Asia Iron Holding Limited ("Asia Iron"). Mount Gibson Iron currently owns a 54% shareholding in Extension Hill Pty Ltd (formerly Asia Iron Pty Ltd), which holds a number of mining and exploration tenements at Mt Gibson including a 230 Mt magnetite resource at Extension Hill. Asia Iron recently acquired a 46% minority shareholding in Extension Hill Pty Ltd.

The Company will effect a reorganisation of the way in which it holds its interest in the Extension Hill deposit by transferring its 54% interest shareholding in Extension Hill Pty Ltd to Asia Iron in exchange for a 54% shareholding in Asia Iron. Mount Gibson Iron will be issued 67.5 million shares by Asia Iron at HK$1.00 each which is approximately equivalent to A$11.0 million.

All tenements in the Mt Gibson range held by Extension Hill Pty Ltd and not required for the development of the Extension Hill mine, will be retained by Mount Gibson Iron. The Company has also gained the right to mine and sell all hematite resources at Extension Hill and at any other tenement held by Asia Iron in Western Australia. Mount Gibson Iron is negotiating a 20 year contract to manage the operation of the Extension Hill magnetite mine and will be also be engaged to manage any other magnetite mine developed by Asia Iron in Western Australia within the next 10 years.

In February 2005, Mount Gibson Iron announced that it had purchased 9.0 million shares in Asia Iron from two of Asia Iron's founding shareholders for $2.475 million. The purchase price was satisfied by the issue of 4.95 million Mount Gibson Iron shares at 50 cents each to the vendors.

In February 2005, 694,444 options which expire on 28 February 2006 were exercised at 15.84 cents per option, which realised $110,000.

In February 2005, Rio Tinto announced that it had reached agreement with Nippon Steel on a 71.5% price increase for Hamersley lump and fines prices for the contract year commencing 1 April 2005. This increased the prices for lump ore to US$78.77/tonne and to US$61.72/tonne for fines ore. As all Mount Gibson Iron offtake agreements are based on the above prices for Hamersley lump and fines, the Company will benefit from the new prices for all sales from 1 April 2005.

17. SEGMENT INFORMATION

Segment products and locations

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

The "other" segment includes revenues and expenses associated with an investment portfolio and investment properties purchased in prior years and divested during the half-year, and other revenues and expenses associated with general head office activities.

17. SEGMENT INFORMATION (CONTINUED)

	Mining		Other		Consolidated	
	December 2004 $	December 2003 $	December 2004 $	December 2003 $	December 2004 $	December 2003 $
Revenues						
Sales to customers outside the Consolidated Entity	33,721,198	-	-	-	33,721,198	-
Other revenues from customers outside the Consolidated Entity	1,826,714	190,234	67,884	558,280	1,894,598	748,514
Total segment revenue	35,547,912	190,234	67,884	558,280	35,615,796	748,514
Results						
Segment result	7,778,376	(7,907,131)	(1,724,994)	(6,024,883)	6,053,382	(13,932,014)
Unallocated expenses					-	-
Net profit/ (loss)					6,053,382	(13,932,014)

18. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Mount Gibson Iron Limited has commenced transitioning its accounting policies and financial reporting from current Accounting Standards to Australian equivalents of International Reporting Standards (IFRS). The company has allocated internal resources to assess key areas that will be impacted by the transition to IFRS. As Mount Gibson Iron Limited has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Mount Gibson Iron Limited prepare its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Mount Gibson Iron Limited. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Classification of Financial Instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will, in turn determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost, financial assets held to maturity – measured at amortised cost, financial assets held for trading – measured at fair value with fair value changes charged to net profit or loss, financial assets available for sale – measured at fair value with fair value changes taken equity and non-trading liabilities – measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

18. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (CONTINUED)

Hedge Accounting

Under AASB 139 Financial Instruments: Recognition and Measurement, in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identify the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Under the current accounting policy unrealised exchange gains and losses on specific hedges at balance date are deferred and recognised in the statement of financial position and any unrealised exchange gains or losses on general hedges are included in the statement of financial performance. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured.

Impairment of Assets

Under AASB 136 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Share based payments

Under AASB 2 "Share Based Payments", the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

Income taxes

Under AASB 112 "Income Taxes", the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The Company is currently assessing the impact as a result of adoption of this standard.

18. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (CONTINUED)

Exploration and Evaluation Expenditure

AASB 6 “Exploration for and Evaluation of Mineral Resources” will require the Company to apply “area of interest” accounting to exploration and evaluation expenditures, effectively grandfathering the treatment currently used by the Company under AASB 1022 “Accounting for the Extractive Industries”. Under AASB 6, if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the Company must perform impairment tests on those assets in accordance with AASB 136 “Impairment of Assets”. Impairment of exploration and evaluation assets is to be assessed at a cash generating unit or group of cash generating units level provided this is no larger than an area of interest. Any impairment loss is to be recognised as an expense in accordance with AASB 136. The adoption of AASB 6 is not expected to lead to a change in the Company’s accounting policy with respect to exploration and evaluation expenditure.

The Company is currently determining the impact of IFRS on the deferred development costs and amortisation of these costs.

Provisions, Contingent Liabilities and Contingent Assets

Under AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”, the mining restoration and rehabilitation and provision will be required to be discounted to its present value. This will result in a change in the current accounting policy which recognises the provision gradually over the life of the mine. Reliable estimation of the future financial effects of this change in accounting policy is not yet known as a detailed study is to be conducted into the rehabilitation costs at Tallering Peak in 2004/05.

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 notes of the consolidated entity:

   i) give a true and fair view of the financial position as at 31 December 2004 and the performance for the half-year ended on that date of the consolidated entity; and

   ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

On behalf of the Board

William B Willis

Chairman

Perth, 24 February 2005.

Independent Review Report

Independent review report to members of Mount Gibson Iron Limited

Scope
The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Mount Gibson Iron Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the period ended 31 December 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach
We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence
We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and 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.

Statement
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Mount Gibson Iron Limited and the entities it controlled during the period is not in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2004 and of its performance for the period ended on that date; and
- (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
24 February 2005

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 2004, 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

V W Tidy
Partner
Perth
24 February 2005