

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED (“MOUNT GIBSON”) QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2008 ASX ANNOUNCEMENT 31 OCTOBER 2008

HIGHLIGHTS

- Continued strong operational performance
- Strong iron ore sales during the quarter
- Record material movements at Koolan Island
- Federal Government approval of Extension Hill DSO EMP's
- Clearing permits granted for Extension Hill DSO drilling
- High grade exploration infill drilling and extensional drilling at Koolan Island
- Hematite targets identified for drilling at Talling Peak

Mount Gibson Iron Limited
ABN 87 008 670 817
Level 1, 7 Havelock Street
West Perth WA 6005
PO Box 55, West Perth WA 6872

Telephone +61 8 9426 7500
Facsimile +61 8 9485 2305
Email admin@mtgibsoniron.com.au
ASX Code MGX

Contacts
Luke Tonkin, Managing Director
Alan Rule, Chief Financial Officer

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CORPORATE

Iron Ore Sales Outlook

On 9 October 2008 Mount Gibson announced that a number of requests had been received from its customers to delay hematite ore shipments scheduled for the second quarter of the financial year.

Mount Gibson has no obligation to agree to any of the relevant customers' requests. In this regard, each customer has entered into binding long term ore sales agreements and is contractually obligated to take delivery of the shipments allocated to it in the December quarter. Further, Mount Gibson has fully complied with its contractual obligations and is willing and able to continue to do so.

Since Mount Gibson announced a slow down in demand for iron ore in China due to current economic uncertainty and the tightening of credit facilities, leading to reductions in steel production and the build-up of current high level of iron ore stockpiles at Chinese ports, a number of other major domestic and international iron ore producers and steel mills have similarly confirmed weakening demand for iron ore and have announced operational and financial mitigation strategies.

Mount Gibson has been endeavouring to reach mutually acceptable shipping schedules for the remaining contract year with its contracted customers and take the necessary steps to minimise any disruption that may result to operations. In parallel with discussions with our current customers Mount Gibson has held discussions with other potential off-take parties, the result of which will be subject to a further announcement which will allow Mount Gibson's shares to trade.

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OPERATIONS

Tallering Peak

Mining operations at Tallering Peak during the September 2008 quarter was in line with forecast and focused on the stripping of waste material from the T6A3 and T2 cutbacks. The surface area of the T6A3 cutback more than doubled over the quarter. High grade ore was sourced from the T6A1, T6A2 and T2A cutbacks. The focus on stripping waste material was made possible by Tallering Peak's significant ore stockpiles located at the Rivudini rail facility. Total ore stockpiles ended the September 2008 quarter at 1.7 million tonnes.

Mining activity in the December quarter is scheduled predominantly in the T2B cutback, which commenced late in the quarter, and the T6A3.

Crushing performance was in line with the company's forecast for the quarter. As part of a planned maintenance program the Tallering Peak crushing plant was shut down for 9 days in July.

Rail haulage during the quarter was lower than forecast mainly due to a level crossing collision in July between a bulk fuel road tanker and a train carrying Tallering Peak ore to the Geraldton port. This collision resulted in substantial damage to two locomotives and a number of ore haulage wagons. Rail operations were terminated for 8 days whilst the damaged equipment was removed and the track repaired whilst rail capacity over the remainder of the quarter was impaired by the resulting decrease in that availability of rolling stock.

Production for the September quarter is detailed in the following table:

		Sept 2008 qtr 000's	TOTAL 08-09 000's
Mining			
Waste Mined	bcm	2,464	2,464
Ore Mined	wmt	623	623
Crushing			
Lump	wmt	487	487
Fines	wmt	312	312
Total	wmt	799	799
Transport to Mullewa Railhead			
Lump	wmt	452	452
Fines	wmt	381	381
Total	wmt	833	833
Transport to Geraldton Port			
Lump	wmt	320	320
Fines	wmt	344	344
Total	wmt	664	664
Shipping			
Lump	wmt	351	351
Fines	wmt	305	305
Total	wmt	656	656

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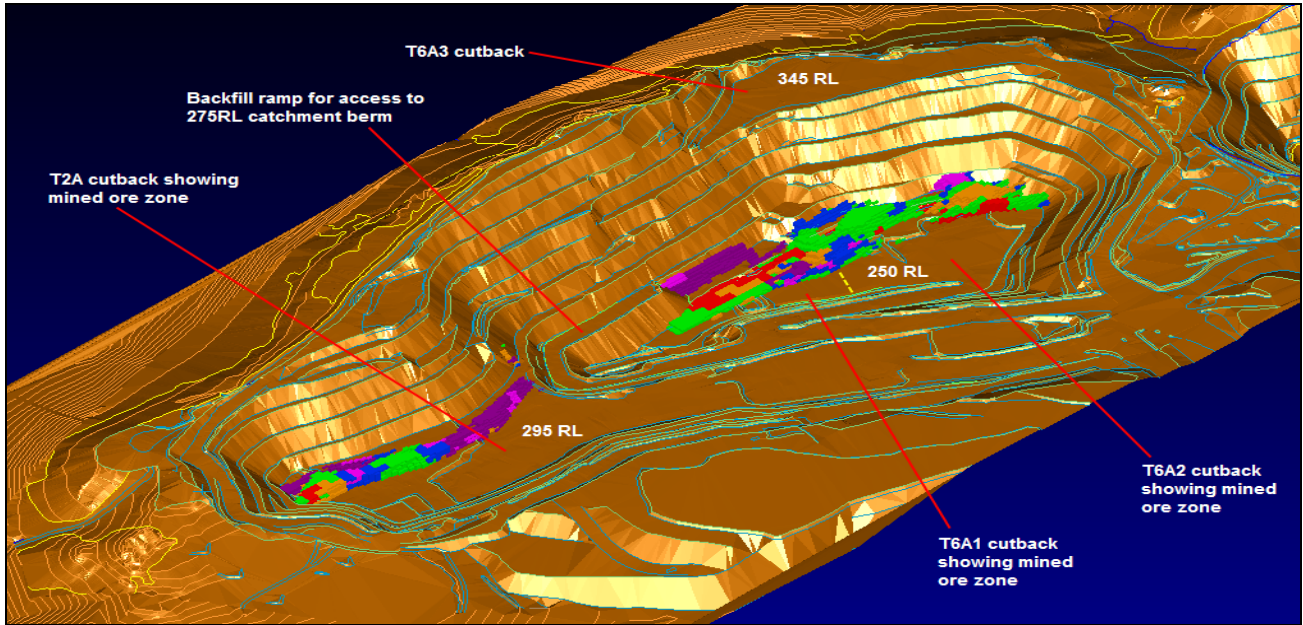


Figure 1 - Main range mining as at the end of June 2008 quarter

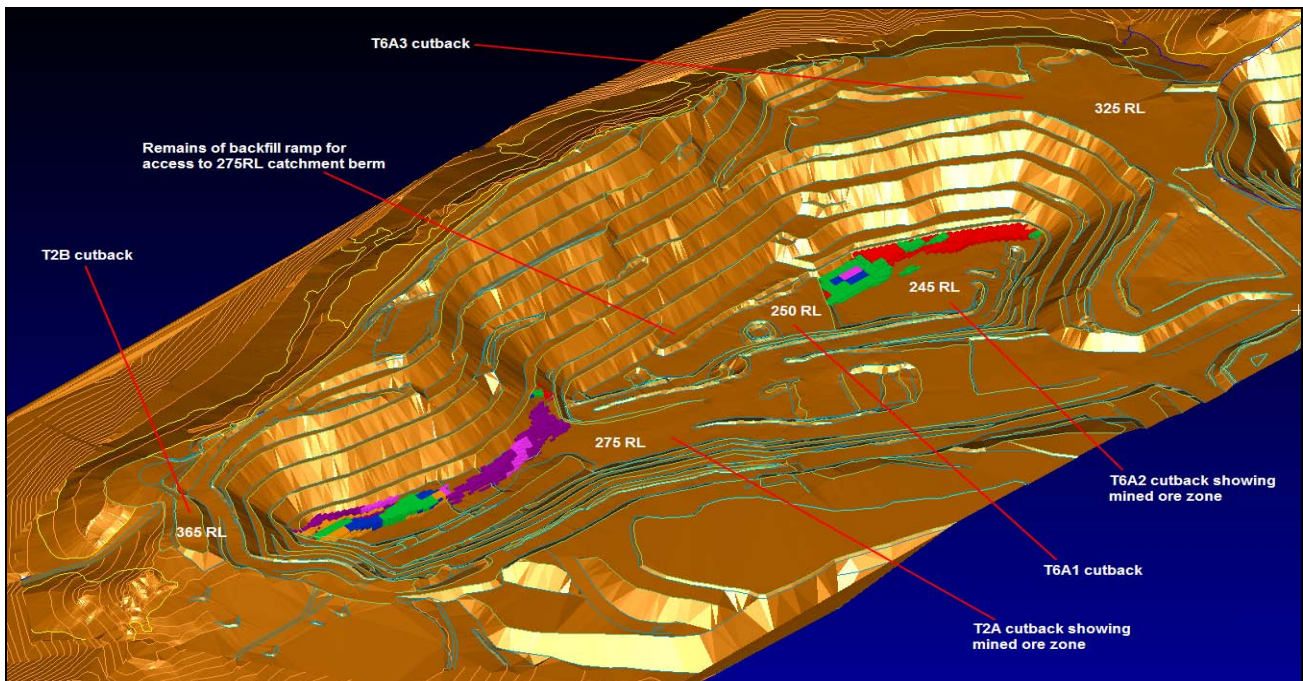


Figure 2 - Main range mining as at the end of September 2008 quarter

The comparison between Figure 1 and Figure 2 above shows progress in the September 2008 quarter.

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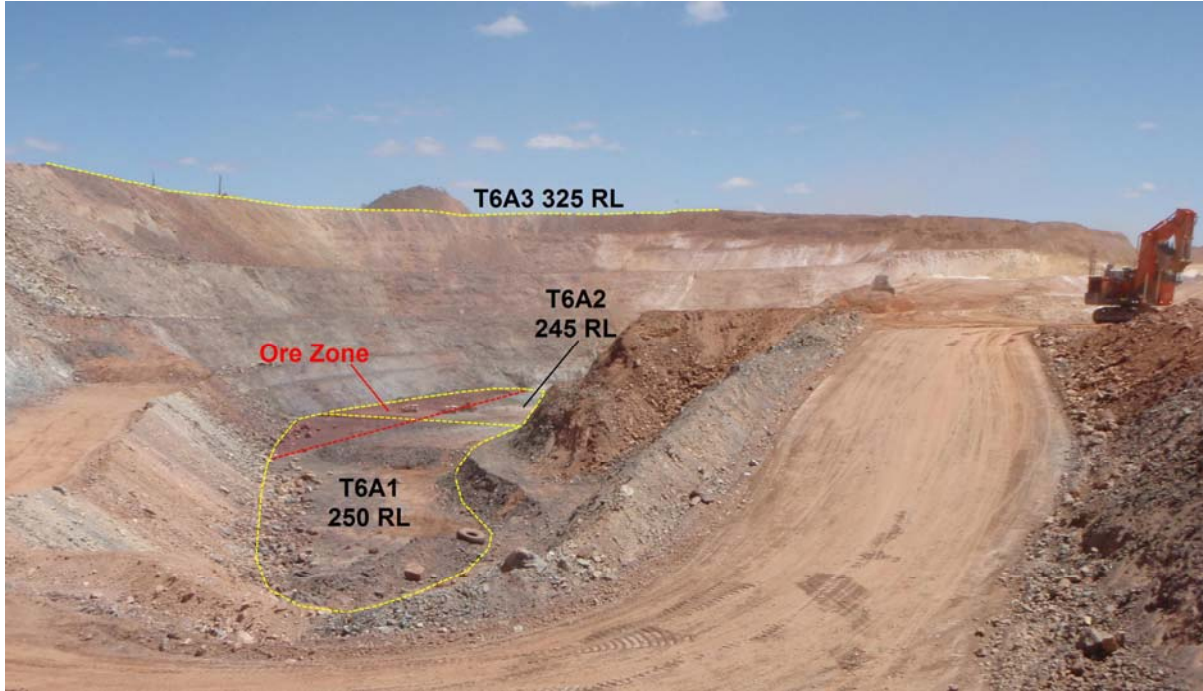


Figure 3 - Main range operation from western edge of T2

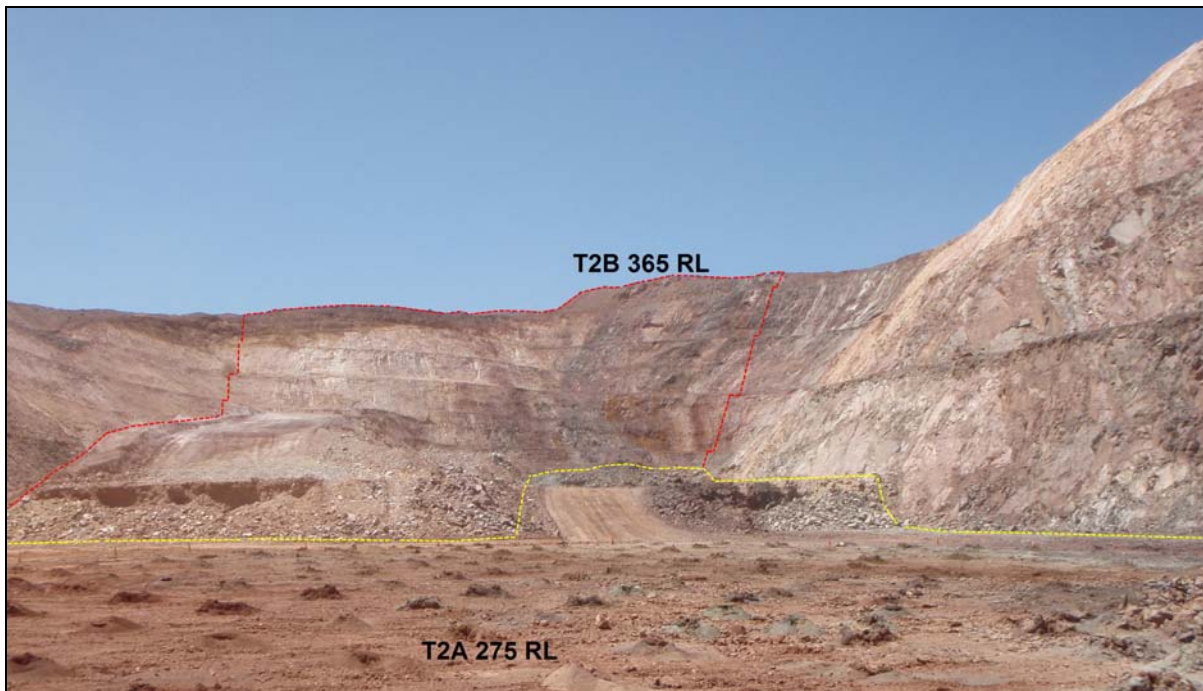


Figure 4 - T2 cutback from northern pit wall

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Koolan Island

Total ore and waste movement from mine operations increased from last quarter by 62% to 4.3 million BCM. A further 0.23 million BCM was mined from Blinker Hill and used for the seawall construction. Blinker Hill is complete to the 50RL, and has been drilled and blasted to the 38RL.

East Pit progressed to the 110RL, while mining in the Barramundi Limb pit has one bench remaining to be mined.

High grade ore was mined from the lower levels of the Mullet pit, currently at 38RL, and waste mining from the northern cutback continued as planned, reaching the 65RL.

Main Pit West is now well established, and development of the long-term access ramp to the west has improved hauling productivity. Crusher Hill has been drilled and blasted to the 66RL, with demolition of the old BHP crusher complete to the 76RL.

902,000 tonnes of ore was mined for the quarter, an increase of 13% from last quarter with 40% from Mullet, 34% from East and 26% from Main Pit West.

Production for the September quarter is detailed in the following table:

		Sept 2008 qtr 000's	TOTAL 08-09 000's
Mining			
Waste Mined	bcm	3,998	3,998
Ore Mined	wmt	902	902
Crushing			
Lump	wmt	368	368
Fines	wmt	609	609
Total	wmt	977	977
Shipping			
Lump	wmt	361	361
Fines	wmt	415	415
Total	wmt	776	776

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Figure 5 – Main Pit West at the end of September 2008

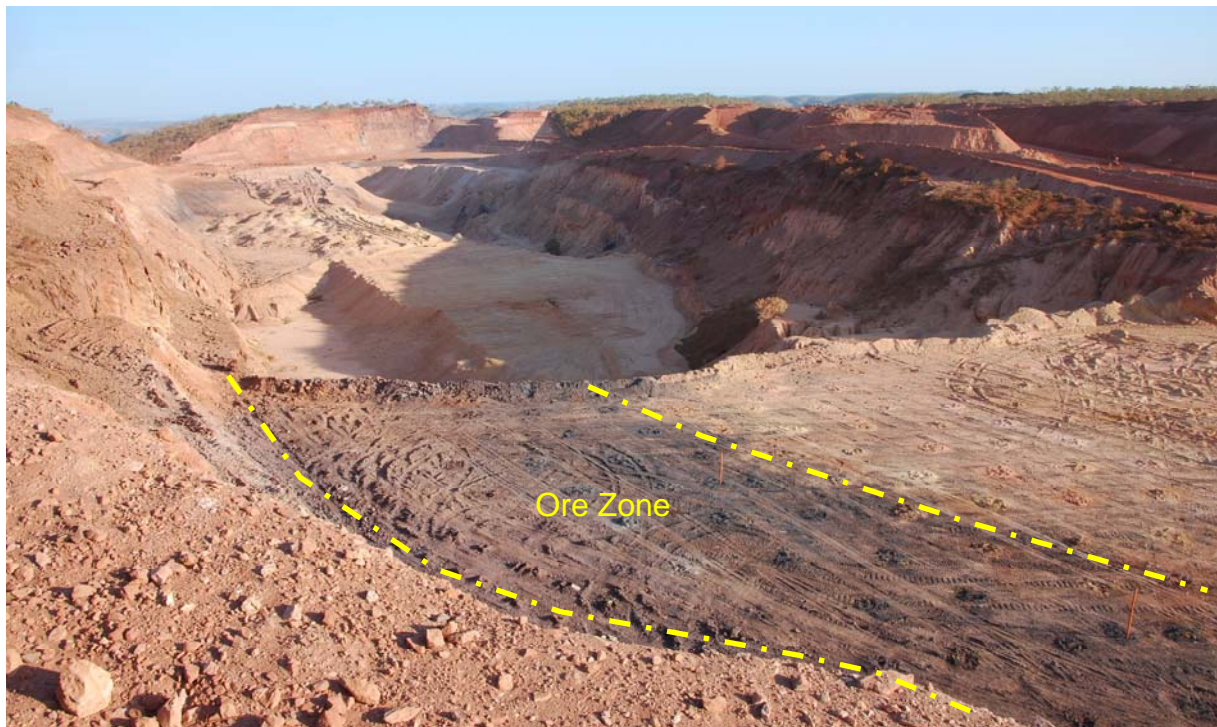


Figure 6 – East Pit cut back looking east at the end of June 2008

Mount Gibson Iron Limited
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Figure 7 – Koolan Island operation at the end of September 2008

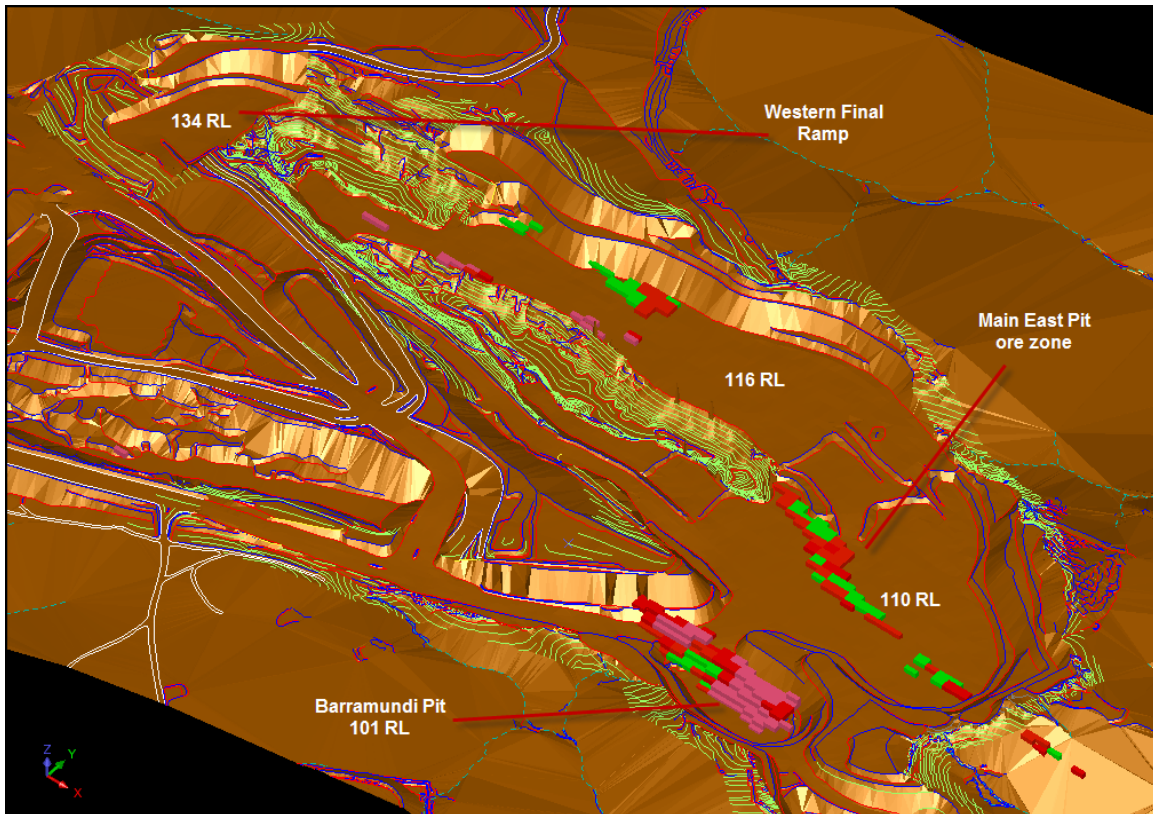


Figure 8 – East Pit at the end of September 2008

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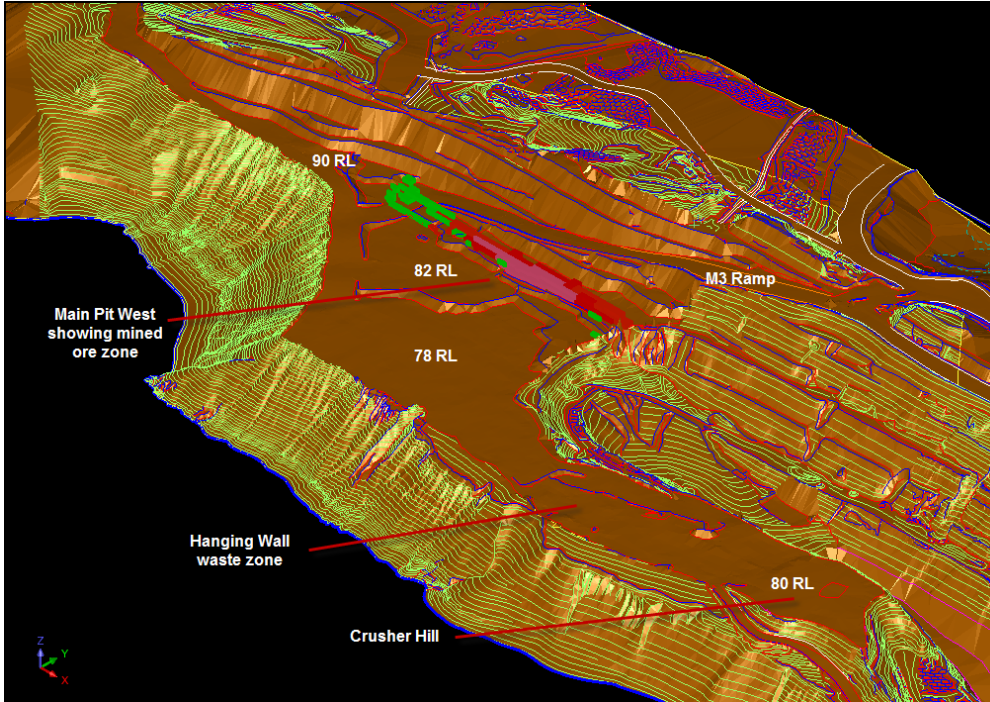


Figure 9 – Main Pit at the end of September 2008

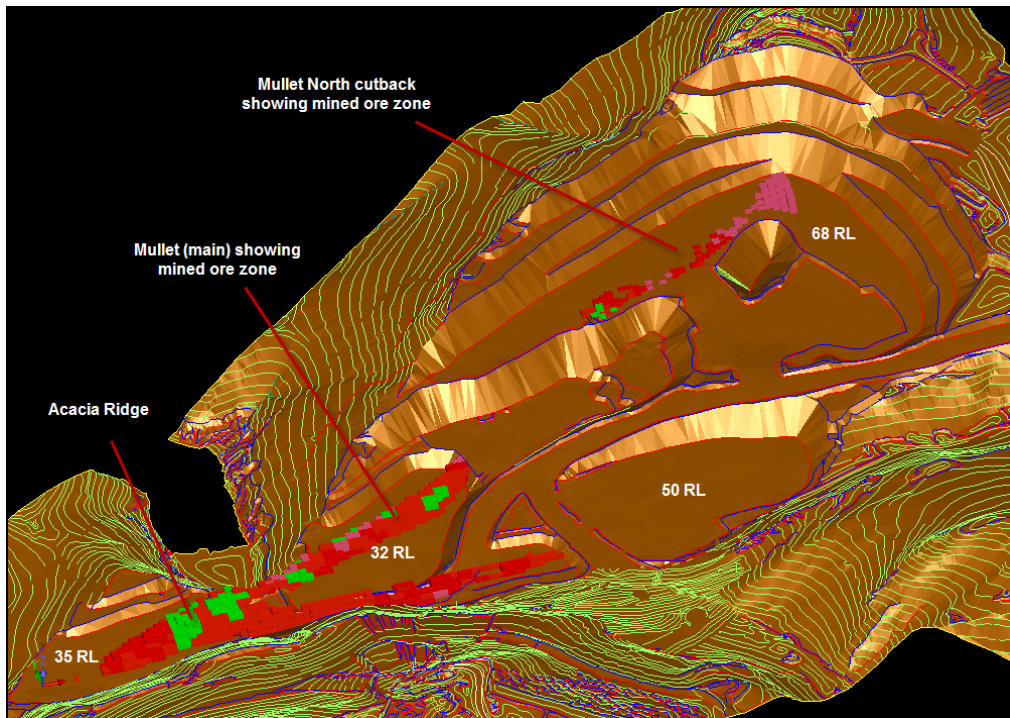


Figure 10 – Mullet Pit at the end of September 2008

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The following key activities were undertaken during the quarter:

Seawall Construction

- Commenced development of the western access ramp from Blinker Hill to Arbitration Cove to allow for decreased load and haul cycle times;
- Continued placement of seawall starter embankment material from western end of Arbitration Cove;
- Dual shift crane operation commenced;
- Additional material placed on the seawall infill section to raise fill level; and
- Completed the western extent of the starter embankment and material placement continues toward the southeast.

Main Pit Rehabilitation

- Cable bolt support drilling program continued efficiently;
- Removal of historic protruding anchors and cables continues from water level;
- Impermeable coating to prevent excess water entering the supporting rock structure during wet season commenced;
- Commissioned barge mounted desalination system;
- Began installation of the central slip zone debris flow barrier;
- Completed installation of initial ten geotechnical monitoring instruments; and
- Commenced depressurization drilling from water level.

Main Pit Dewatering

- Completed construction of the dewatering system sediment settling basin;
- Water level reduced by 19m since pumping commenced; and
- Pumping meets required drop down rates.

Community Relations

- The Mount Gibson - Derby Health partnership commenced during the quarter with three trainees in place;
- Indigenous employment and training programs continued their momentum during the quarter;
- Mount Gibson is a Silver Sponsor at the next North West Expo to be held in Broome; and
- Mount Gibson was the major sponsor for the Kimberley art prize.

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EXPLORATION

Tallering Peak

No new exploration or resource drilling was undertaken during the quarter.

Interpretation of the detailed ground based gravity survey undertaken on the North Ridge earlier this year was completed. A drilling program of up to 91 reverse circulation drill holes has been designed to test a range of gravity and gravity/magnetic anomalies and will commence as soon as the required approvals are obtained.

Several of the anomalies to be tested are strong, linear gravity highs with coincident low level magnetic anomalies, suggestive of hematite alteration zones in magnetite BIF horizons. These are similar to what would be expected over a buried deposit of the same type and size as the Main Range deposit (figure 11).

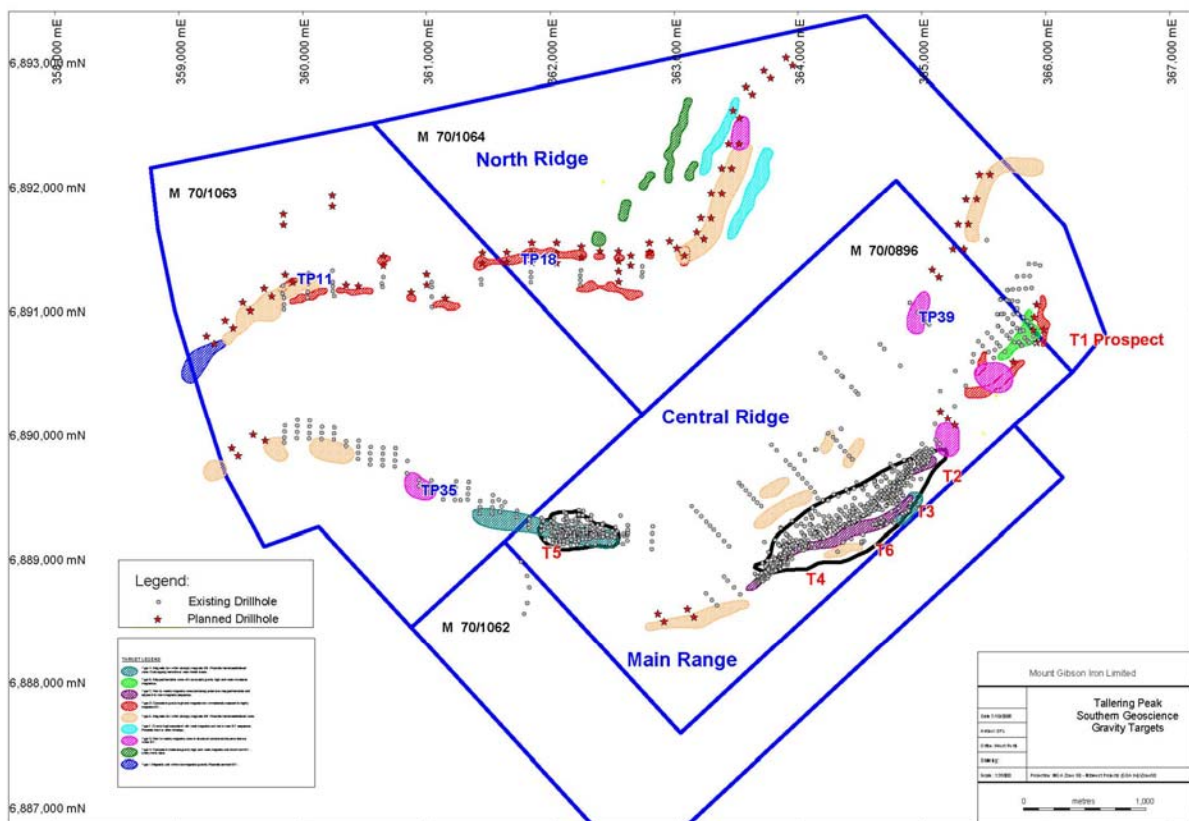


Figure 11 - Gravity and magnetic anomalies, with planned drillholes, Tallering Peak

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Koolan Island

A major reverse circulation infill drilling program has continued throughout the September quarter, the focus being reducing the drill intersection spacing within the existing resource to 25 metres. Drilling has been predominantly in the Barramundi and Eastern orebodies (figure 12).

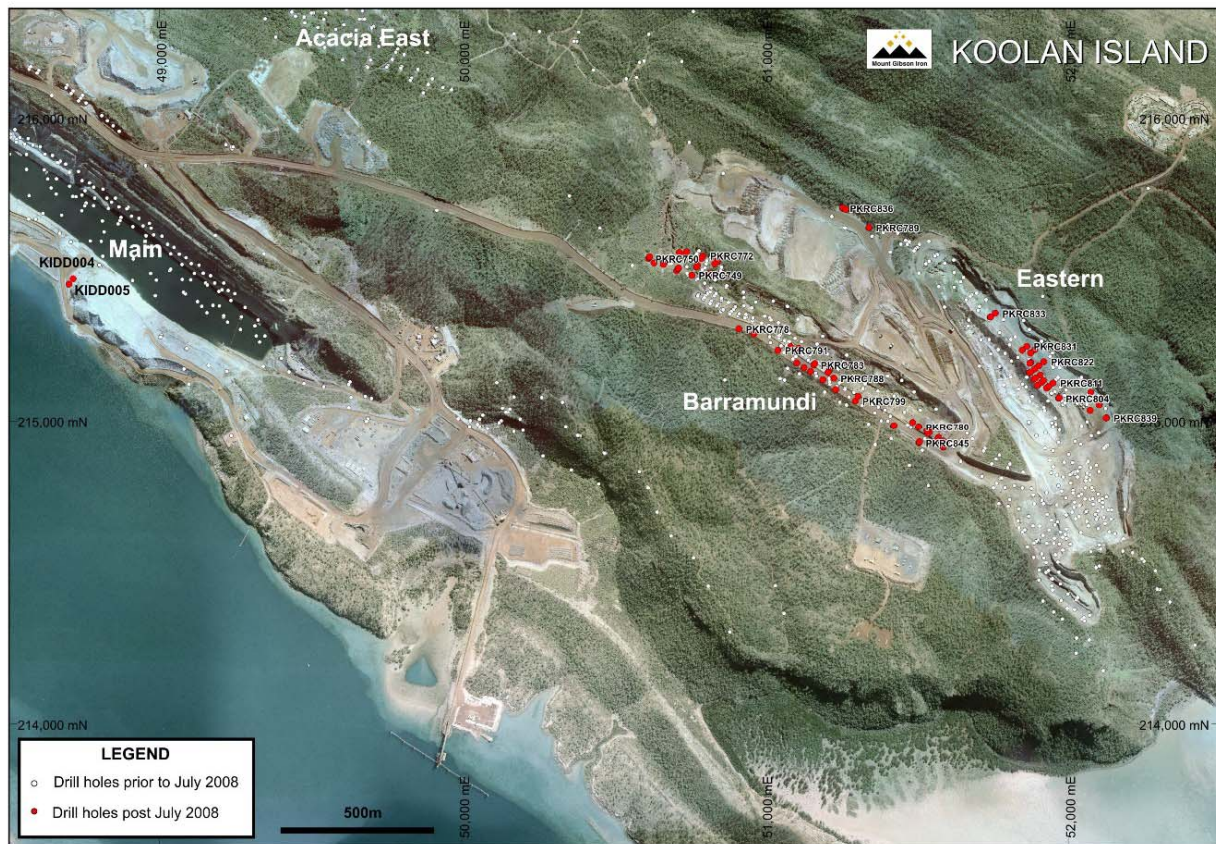


Figure 12 - Plan showing drill holes completed during the Quarter (red circles) and all previous drilling (white circles)

The new data generated by the infill drilling is being used to create a new, upgraded resource model which will significantly improve the short term planning and reconciliation capability within the lower grade satellite orebodies at Koolan Island. During the quarter 111 holes were completed for 7411 metres. Some of the better intersections are tabulated below.

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Prospect	Hole ID	From (m)	To (m)	Interval (m)	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	LOI (%)
Barramundi	PKRC764	25	33	8	64.75	3.18	2.55	0.04	1.85
	PKRC770	37	47	10	65.03	2.95	1.78	0.05	1.72
	PKRC775	10	18	8	63.21	5.37	2.65	0.03	1.79
	PKRC782	43	51	8	64.56	2.27	1.80	0.04	2.69
Eastern	PKRC804	25	40	15	66.48	2.91	1.72	0.04	1.04
	PKRC805	29	55	26	67.39	1.83	1.26	0.03	0.84
	PKRC806	53	82	29	62.74	4.25	1.81	0.03	0.88
	PKRC807	12	50	38	66.52	2.27	1.81	0.03	1.03
	PKRC808	10	47	37	65.84	3.28	2.09	0.02	1.05
	PKRC809	37	66	29	67.23	1.91	1.42	0.03	0.83
	PKRC810	15	29	14	65.41	3.20	2.24	0.04	1.17
	PKRC811	12	26	14	64.53	4.39	2.03	0.05	1.19
	PKRC812	19	52	33	65.69	3.00	2.25	0.03	1.06
	PKRC813	34	69	35	66.80	2.58	1.59	0.04	0.83
	PKRC814	14	52	38	65.20	3.24	2.56	0.04	1.29
	PKRC816	12	48	36	65.57	2.88	2.42	0.03	1.11
	PKRC817	29	66	37	66.38	2.16	1.71	0.05	1.21
	PKRC819	15	28	13	66.19	2.72	2.17	0.06	1.27
	PKRC820	1	47	46	63.87	3.13	2.54	0.05	1.25
	PKRC822	0	20	20	62.19	7.62	1.86	0.02	0.89
	PKRC825	1	10	9	65.37	3.09	2.54	0.03	1.30
PKRC833	12	45	33	59.73	11.55	2.04	0.02	0.98	
PKRC837	45	55	10	60.30	11.45	1.37	0.03	0.90	

Of particular note are the wide, high grade intersections from Eastern. The impact of the infill drilling is clearly demonstrated in the following cross section (figure 13). Although the overall geometry of the main geological structures is consistent with previous interpretations, the increased complexity of the small scale folding is observed. The effective displacement of the mineralisation can have a significant impact on short term reconciliations and can increase dilution and ore loss during mining if mined without sufficient data.

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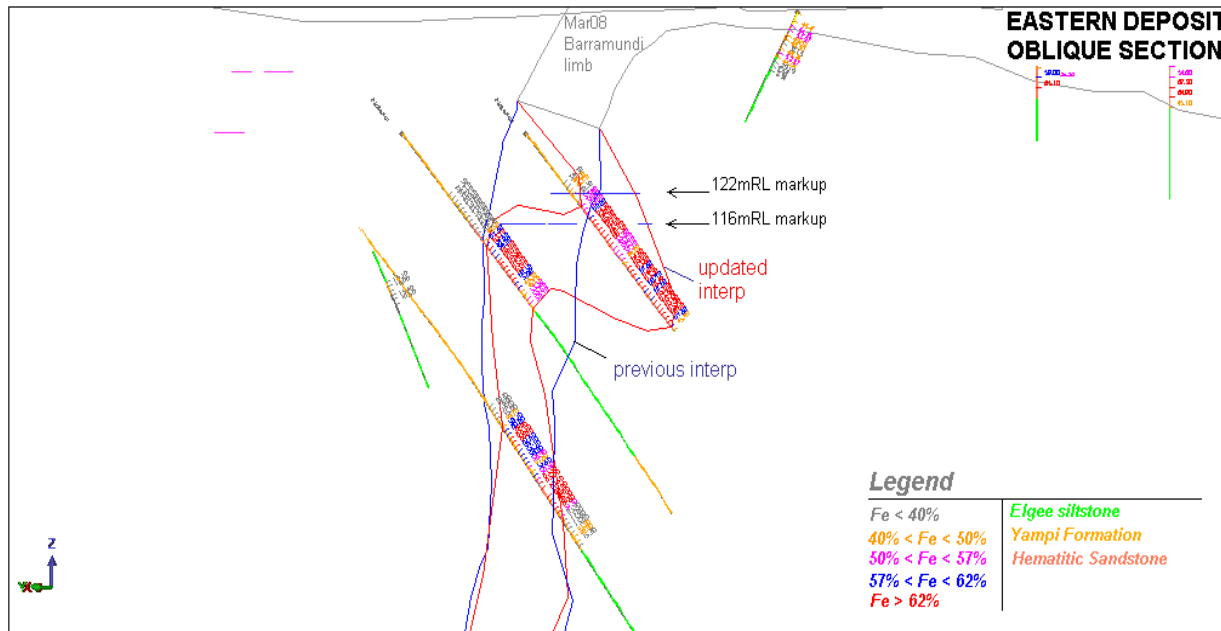


Figure 13 - Oblique section through Eastern deposit showing impact of increased data density on geological interpretation.

Infill resource drilling and resource extension drilling will continue for the rest of the year, particularly in the Acacia-Barramundi and Mullet-Eastern Limbs. Identified exploration targets at Mangrove and Mackerel are also planned to be drilled. During May diamond drilling commenced to test the mineralization beneath Main Pit. Two holes were completed by the end of June utilizing a drill rig that became available for a limited period. Both holes intersected wide, very high grade hematite mineralisation approximately 200m below the final Main Pit (30.6m at 67.4% Fe in KIDD001 and 33.4m at 67.84% Fe in KIDD003) and then intersected additional very high grade hematite mineralisation on the Acacia limb. The results of both holes were reported in the June quarter report.

A new diamond rig was mobilized to site in late August to continue drilling these targets. A program consisting of twenty diamond holes for approximately 10,000m has been designed to define the inferred resource below the Main Pit and to test the Acacia Limb up dip to the Acacia Orebody.

KIDD004 intersected the Main Orebody at 211m. KIDD005 progressed to 454m, having also intersected wide, very high grade mineralisation (figure 14). Assay results for the two intersections are yet to be received.

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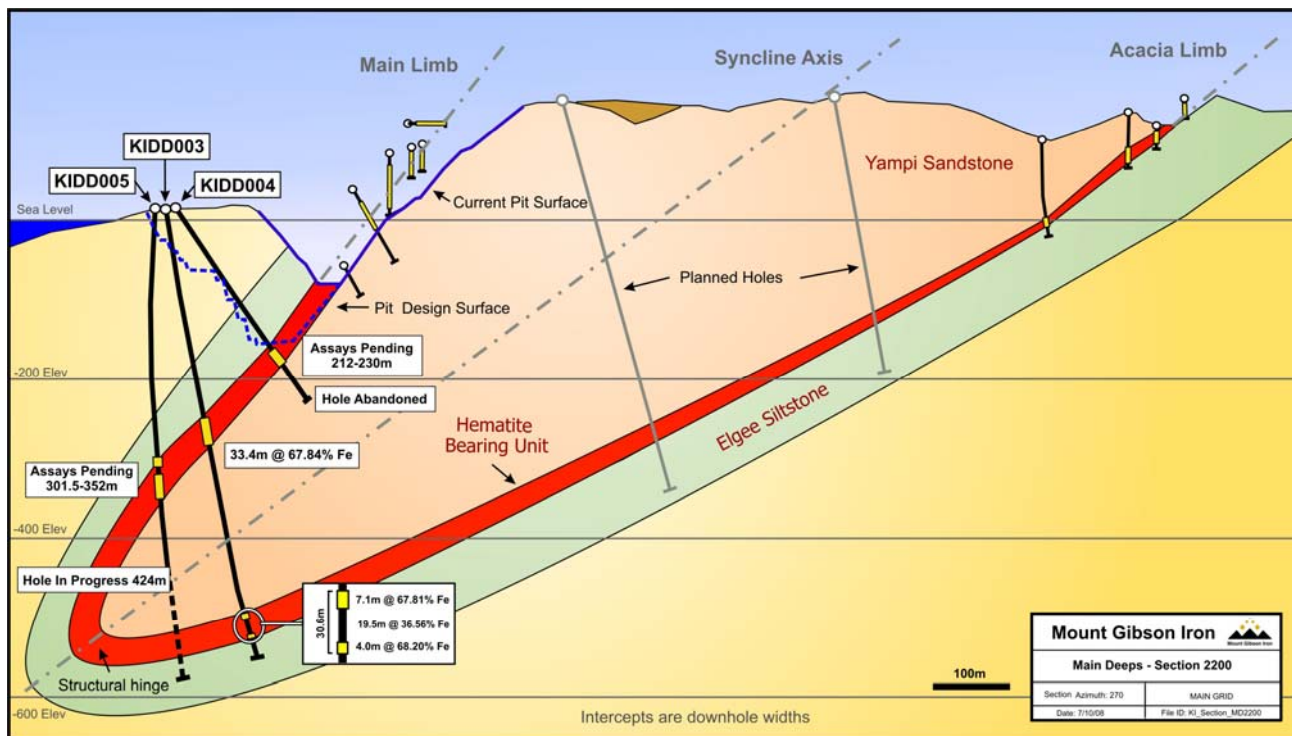


Figure 14 - Section 2200E showing latest diamond drill hole intersections on the Main Pit and Acacia Limb mineralized horizons.

Extension Hill Direct Shipping Ore ("DSO") Project

Regulatory submissions and approvals during the quarter were:

- State approval by the Department of Environment & Conservation ("DEC") under delegated authority for the State Environment Minister of the risk based Environment Management Plans ("EMPs") was received on 7th August 2008;
- Two separate EMPs for Mallee Fowl and Darwinia Masonii were submitted for Federal approval by the Department of the Environment, Heritage, Water and the Arts ("DoEHWA") on 11th August 2008 and were approved on 3 October 2008;
- Approval from the EPA was received on 26th August 2008 for the second Section 45C for minor amendments to the site layout;
- The Extension Hill – Hematite transportation proposal was advertised during the June quarter and two submissions/objections were received from the public with one objection being withdrawn. This matter is has been reviewed by the Appeals Convenor and his recommendation has been submitted to the Minister for Environment for determination;
- Approval of the Extension Hill - Mining Proposal by the environment branch of the Department of Industry and Resources is pending;
- Approval of the Extension Hill – Project Management Plan by the Department of Consumer & Employment Protection is pending;
- The DEC approved the Environmental Works Approval applications for the crushing and screening plant, the sewerage treatment facility and the site landfill on the 4th September 2008;

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- The Department of Water approved the water abstraction license for the site water bores on 22nd September 2008; and
- FESA approval for the site offices has been received, shire approval will be granted following approval from the Health Department.

Design and engineering work during the quarter were:

- Minor design and technical queries were addressed on the storage and handling facilities at Berth 5;
- Perenjori rail siding design work for electrical services to site and water supply continued through the quarter;
- Detailed design for the realignment of the planned haul road between the mine site and Perenjori rail siding was completed during the quarter; and
- Detailed design of the site infrastructure and services neared completion in the quarter.

Construction:

- Civil works for the storage facilities at Geraldton Port continued throughout the quarter. The Contractor is nearing completion of the contract and is carrying out site cleanup and removal of construction materials whilst carrying out the final components of its contract. The contractor is expected to demobilise at the end of October;
- Preassembly of the structural steel is proceeding in preparation of the commencement of steel erection in the December quarter; and
- Structural steel fabrication and delivery continued throughout the period and is ongoing.



Figure 15 - Geraldton Storage Facility - Conveyor trench looking north

Mount Gibson Iron Limited
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Figure 16 - Geraldton Storage Facility – Final sections of storage building walls under construction

David Berg
Company Secretary

Mount Gibson Iron Limited
ABN 87 008 670 817
Level 1, 7 Havelock Street
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