



**MOUNT GIBSON**

IRON LIMITED

**2004**  
**ANNUAL REPORT**



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## BOARD OF DIRECTORS

Bill Willis *Chairman*  
Brian Johnson *Managing Director*  
Craig Readhead *Non-Executive Director*  
Ian MacIver *Non-Executive Director*

## COMPANY SECRETARY

Angela Dent  
John Arbuckle

## REGISTERED OFFICE

Level 1, 7 Havelock Street  
West Perth 6005, Western Australia  
Telephone: 61-8-9485-2355  
Facsimile: 61-8-9485-2305  
Email: [admin@mtgibsoniron.com.au](mailto:admin@mtgibsoniron.com.au)

## SOLICITORS

Pullinger Readhead Lucas  
46-50 Kings Park Road  
West Perth 6005, Western Australia

## SHARE REGISTRY

Computershare Investor Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St George's Terrace  
Perth 6000, Western Australia  
Telephone: 61-8-9323-2000  
Facsimile: 61-9-9323-2033

## ANNUAL GENERAL MEETING

The 2004 Annual General Meeting of Mount Gibson Iron Limited will be held at 3.30pm on Monday 29 November 2004, at the Sutherland Room, City West Function Centre, 45 Plaistowe Mews, West Perth, Western Australia

## EASY ACCESS TO INFORMATION

See our website at [www.mtgibsoniron.com.au](http://www.mtgibsoniron.com.au) for regular quarterly reports and financial results. Additionally, shareholders or interested parties can register to receive emailed updates shortly after the Company makes any regular or major announcement.

## AUDITORS

Ernst & Young  
Central Park  
152 St Georges Terrace  
Perth 6000, Western Australia

## BANKERS

HSBC Bank Australia Ltd  
188-190 St Georges Terrace  
Perth 6000, Western Australia





# MOUNT GIBSON IS ON-TRACK TO BECOME A SIGNIFICANT SUPPLIER OF IRON ORE

Mount Gibson Iron Limited was established as an exploration company in 1996 and listed on the Australian Stock Exchange in January 2002.

A series of capital raisings since then has permitted the Company to commence the progressive development of a number of iron ore deposits (hematite and magnetite) in the Midwest region of Western Australia which it owns, or over which it holds mining rights.

The Company's first mine at Talling Peak commenced shipping hematite ore to China in February 2004.

The Company is now focused on the development of a mine to produce 2.5 Mtpa of magnetite concentrate as feed for pellet production in China.



## CHAIRMAN'S LETTER

### REPORT TO SHAREHOLDERS

#### PRODUCTION STATISTICS YTD 2004

Waste Mined (bcm) 1,668,000

Ore Mined (wmt) 534,000

#### Crushing (wmt)

Lump 324,000

Fines 193,000

Total 517,000

#### Road Transport (wmt)

(Tallering Peak to Mullewa)

Lump 322,000

Fines 184,000

Total 506,000

#### Rail/Road Transport (wmt)

(Mullewa to Geraldton)

Lump 310,000

Fines 162,000

Total 472,000

#### Shipping (wmt)

Lump 259,000

Fines 128,000

Total 387,000

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Dear Shareholder

It is a pleasure to present Mount Gibson Iron Limited's Annual Report for 2003/04, highlights of which include the commencement of hematite mining operations at Talling Peak and the Company's first iron ore shipment to China in February 2004.

Gross profit of \$3.1 million was generated from the 380,000 tonnes of ore shipped between February and June 2004 meeting budgeted profit expectations which have continued through to the date of this Report.

Ore production has been progressively ramped up to 1.8Mtpa and is expected to increase to 2.1Mtpa rate by January 2005. Previously reported operational problems in the port at Geraldton have been largely overcome and the shortage of available railway wagons on the privately owned regional rail system is improving.

Rail system capacity constraints have delayed the commencement of mining operations at Mt Gibson, probably until the completion of mining at Talling Peak. Talling Peak is planned to be mined at a maximum rate of around 2.3Mtpa to 2.5Mtpa for about six years before mining operations are relocated to Mt Gibson, where mining is planned to continue at the same rate for at least another five years.

The first phase of the Company's operations are now well established and are expected to yield on going operating profits of around \$15 million per year at this level of production.

The second phase of the Company's operations will involve the development of the Company's extensive magnetite deposits at Mt Gibson.

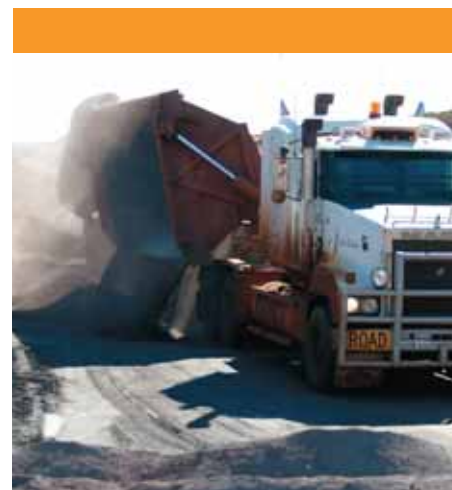
As previously announced, and subject to Shareholder's approval, the Company will effectively exchange its 54% interest in the Mt Gibson magnetite deposits for a 30% shareholding in Hong Kong based Asia Iron Holdings Limited. The \$7.5 million value of the Company's interest derives from the cost over a number of years of extensive exploration and metallurgical test work.

Asia Iron Holdings Limited, in partnership with a major Chinese steel mill, intends to develop mines in Western Australia to produce magnetite concentrate to feed two 2.5Mtpa pellet plants to be constructed at Longtan near Nanjing in China.

The Company will manage these mines and the production of magnetite concentrate from them on behalf of Asia Iron Holdings Limited and will be paid a fee for doing so. The commissioning of the first mine and pellet plant is scheduled for late 2006 with the second, twelve months later.

Income from the Company's indirect interest in Asia Iron Holding Limited's pellet making in China and management fees arising from their Australian mining and concentrating operations are expected to continue for twenty years.

Fees generated from this second phase of the Company's development have the potential to double profits without requiring capital contributions for mine or concentrator establishment and should position the Company for further growth.



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Yours sincerely,

WILLIAM B WILLIS  
CHAIRMAN

Perth, 29 September 2004





Midwest Region of Western Australia

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# IRON ORE MINING AT TALLERING PEAK



## REVIEW

### OF PROJECTS



Mount Gibson Iron Limited has made significant progress in the past 12 months. It has developed and commenced mining at its Talling Peak project and has further enhanced both its hematite and magnetite projects in the Midwest region of Western Australia which it owns or over which it holds mining rights.

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## TALLERING PEAK HEMATITE

The Company's first iron ore mine has been developed at Talling Peak, which is located 170km by road and rail from Geraldton. Mining of overburden commenced in November 2003 and the first shipment of ore occurred in February 2004.

Mining operations at Talling Peak are being undertaken by the Company utilising its own workforce and equipment. Mining of the first pit (T4) is operating on a two shift basis with two excavators. Mining of the second pit (T5) has recently commenced and pre-stripping of the third pit (T3) is underway.

After mining, the ore is crushed and screened at the mine-site into lump and fines stockpiles. Currently, the mine is producing lump and fines on a 65:35 ratio. This ratio is expected to improve to 70:30 with increasing depth of mining as the ore becomes more competent. Lump ore is sold at a higher rate than fines which must be sintered before feeding to a blast furnace.

The crushed ore is transported 65 kms by road-train to Mullewa where it is stockpiled at the Company's rail loading facility. Significant costs have been incurred by the Company during this financial year to seal 45 kilometres of public roads between the mine and the rail loading facility.

These costs were incurred to ensure an all weather surface is maintained to the rail-head stockpiles for continuity of supply, and to generate cost savings from reduced road maintenance.

At Mullewa, the ore is loaded onto rail wagons by Company employees using front end loaders. The ore is then railed 107 kms to Geraldton, where it is stockpiled in a purpose built 150,000 tonne capacity storage shed which was constructed by Mount Gibson Iron Limited. From there the ore is loaded onto ships by the Geraldton Port Authority for transport to China.

The Company has contracted to sell 1.6Mtpa of ore for the life of the Talling Peak mine, with about 50% going to two trading companies and 50% to two end-users. Prices are fixed to the prevailing published fob prices for iron ore sold by Hamersley Iron from its Pilbara ports, which are reviewed annually. Production in excess of the contracted tonnage is sold on the spot market which remains strong.

The crushing and screening of the ore, road haulage, rail transport, and ship loading, is being carried out by experienced contractors.

At 30 June 2004, the Company had mined 534,000 tonnes of ore, and shipped 380,000 tonnes since mid February 2004. This is a satisfactory result considering the operational problems encountered during this period at the Geraldton Port and a shortage of rail wagons.



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## TALLERING PEAK HEMATITE (continued)

The Geraldton Port Authority has had difficulty in meeting its contractual obligation to load ore on a continuous 24 hour per day basis. The existing materials handling configuration cannot load the variety of mineral products without frequent stoppages being incurred through the single shiploader to allow cleandown of conveyors and changes to equipment. The Geraldton Port Authority is currently installing an additional shiploader which should significantly alleviate this problem.

The rail contractor has also struggled to provide the contracted quantity of rail wagons. However, this situation is improving with time. Despite these operational problems, the Company has managed to control costs and is operating at budgeted margins.

## MT GIBSON HEMATITE

The Company owns the rights to mine hematite ore at the Extension Hill and Iron Hill deposits within the Mt Gibson range.



It is the Company's intention to develop a mine at Mt Gibson as soon as possible but commencement will be delayed until the owner of the regional rail system can increase the system's capacity on commercial terms acceptable to the Company.

As a consequence, it is now planned to mine-out the Talling Peak deposits at around 2.3Mtpa to 2.5Mtpa (current rail capacity) before relocating to Mt Gibson.

In the event production of hematite continues to be restricted to 2.5Mtpa, the Company has sufficient resources at the two locations to operate at this level for approximately eleven years.

The Mt Gibson mine is expected to produce a similar operating profit to Talling Peak as extra haulage costs will be largely offset by reduced mining costs as a result of the lower waste to ore ratio.

Development of the Mt Gibson mine and construction of a 85km private haul road to a railhead at Perenjori will cost approximately \$10.0 million.



## PROJECT

### LOCATIONS



The Company owns the rights to mine hematite ore at the Extension Hill and Iron Hill deposits within the Mt Gibson range.



## **FUTURE**

### **PROJECTIONS**

Mount Gibson Iron Limited recently announced that following a review of its operations at Talling Peak it has projected net profits after tax of \$12.6 million in 2004/05, \$19.5 million in 2005/06, and \$15.2 million in 2005/06.

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## MT GIBSON MAGNETITE

The Company has recently announced that it intends to sell its interest in 54% owned subsidiary, Asia Iron Pty Ltd to Hong Kong based Asia Iron Holdings Limited for A\$7.5 million and be paid by the issue of 30% of Asia Iron Holdings Limited's shares.

Asia Iron Pty Ltd is the owner of the Mt Gibson magnetite deposits.

The Company will also receive 25 cents per tonne (indexed to CPI increases) for any magnetite concentrate produced from the Mt Gibson deposits.

Rights to all technical information will transfer to Asia Iron Holdings Limited, but in the event mining of the magnetite resources does not commence by 31 December 2009, Mount Gibson Iron Limited will have a six month option to repurchase the deposits at their original transfer price.

The Company will retain the right to mine all hematite occurring on leases held now or in the future by Asia Iron Holdings Limited in Western Australia, and to receive fees for managing its magnetite operations.

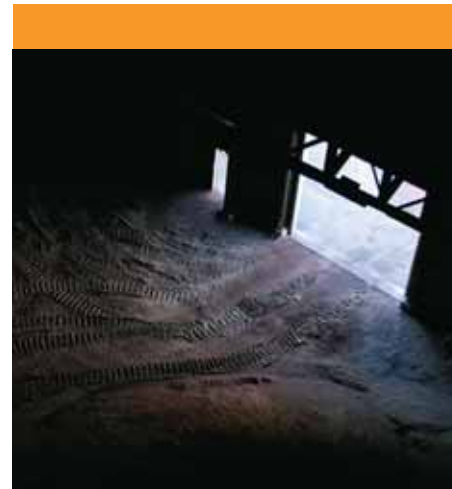
The Company is currently planning a mining operation on behalf of Asia Iron Holdings Limited to produce 2.5Mtpa of magnetite concentrate by late 2006, with a doubling of production one year later.

## FUTURE PROJECTIONS

The Company recently announced that following a review of its operations at Tallering Peak it has projected net profits after tax of \$12.6 million in 2004/05, \$19.5 million in 2005/06, and \$15.2 million in 2005/06.

These budgeted figures are based on conservative iron ore price increases of 7.5% in 2004/05 and 2% for the following years. Most forecasters are predicting price increases of 20% for 2004/05 and if this occurs projected profits should increase substantially.

These estimates are based on revenue generated from the Tallering Peak mine and do not include management fees from the proposed magnetite concentrate operations or from the proposed development of the Mt Gibson hematite mine within these three years.

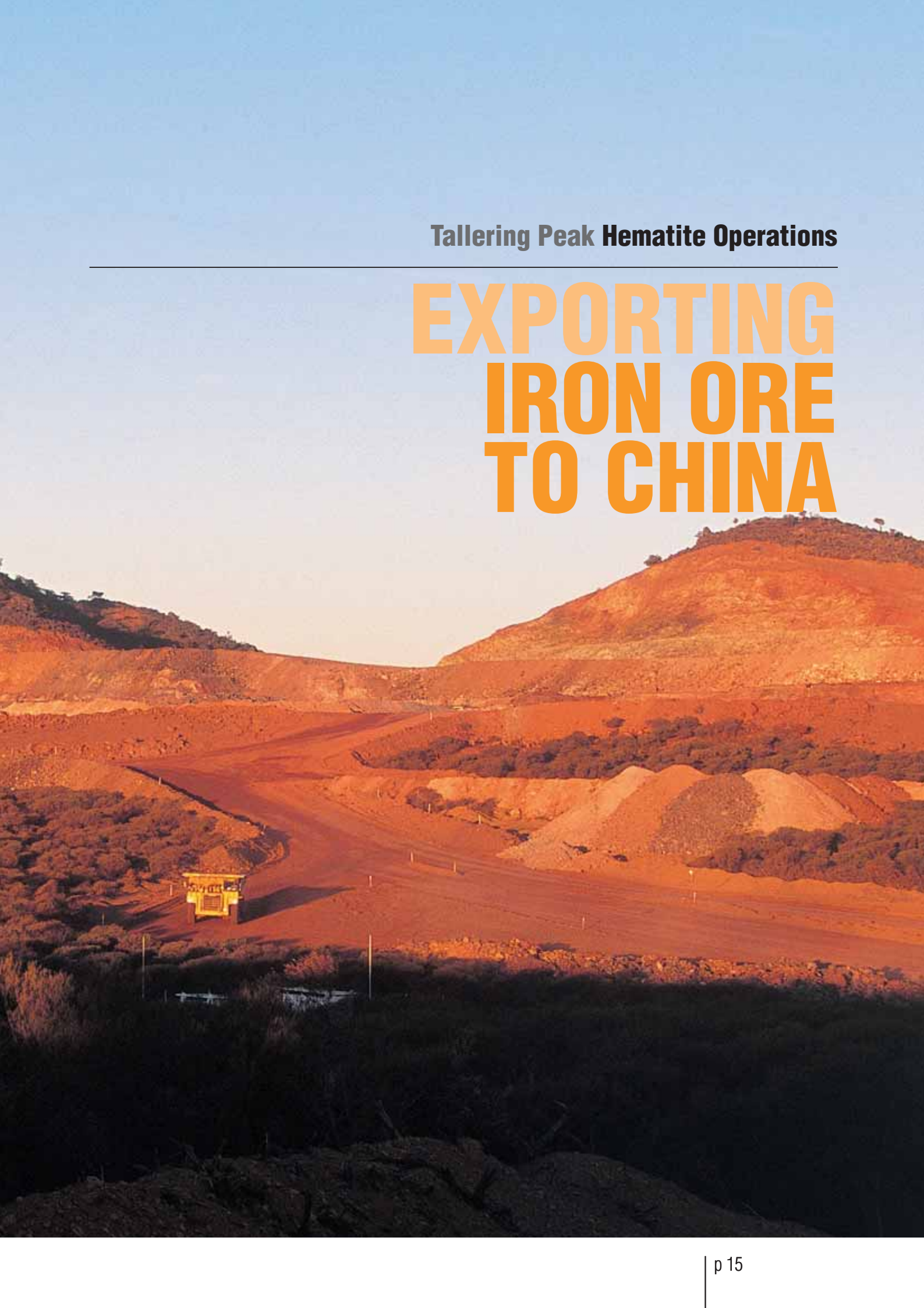




**Tallering Peak Hematite Operations**

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# EXPORTING IRON ORE TO CHINA





## **DIRECTORS'** REPORT

The Directors of Mount Gibson Iron Limited submit their report for the financial year ended 30 June 2004.

# Directors' Report

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Your Directors submit their report for the year ended 30 June 2004.

## DIRECTORS

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

### NAMES, QUALIFICATIONS AND EXPERIENCE

**Bill Willis** AssocDipGeol RMIT, FAusIMM, MGSA, AMP109

#### **Chairman, Non Executive Director**

Mr Willis is a geologist with extensive technical and management experience in the Australian mining sector, particularly in iron ore. He was Executive Director and Chief Executive of Robe River Mining Co Pty Limited from 1993 to 1999 inclusive. Mr Willis was responsible to the Joint Venture between North Limited, Nippon Steel, Mitsui and Sumitomo Metals for the management, operation and expansion of the Robe River iron ore project in the Pilbara region of Western Australia in the 90's. Earlier, Mr Willis worked for BHP and was responsible for exploration, mine geology and management of iron ore production at the company's iron ore mines at Koolyanobbing and Yampi Sound, and responsible for exploration and mine geology at Mt Newman. Mr Willis consults to the group on a part-time basis and is a member of the Audit Committee.

**Brian Johnson** B.E., MIEAust

#### **Managing Director**

Mr Johnson is a civil engineer with extensive experience in the construction and mining industries in Australia, South East Asia and North America. He has held a number of directorships in listed public companies. As a major shareholder and Chief Executive, Mr Johnson was instrumental in establishing Portman Limited's presence in the iron ore industry between 1991 and 1994, developing mines at Koolyanobbing and Cockatoo Island. He also personally partnered Mr Lang Hancock in the development and operation of McCamey's Monster iron ore mine in the Pilbara, prior to its sale to the BHP Group. Mr Johnson has experience in dealing with regional steel mills and major trading houses through his previous involvement in the production of coking coal, manganese and iron ore.

**Craig Readhead** B. Juris, LL.B, AICD

#### **Non-Executive Director**

Mr Readhead has spent the last 24 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is Chairman and a Non-Executive Director of Heron Resources Ltd, Pioneer Nickel Ltd, Agincourt Resources Ltd and Halcyon Group Ltd, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. Mr Readhead is a member of the Audit Committee.

**Ian Macliver** B.Comm, CA, ASIA, AICD

#### **Non-Executive Director**

Mr Macliver is Managing Director of Grange Consulting Group Pty Ltd, which provide specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and Director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is Chairman and a Non-Executive Director of Stratel Ltd and is a Non-Executive Director of Port Bouvard Ltd and BioProspect Ltd. Mr Macliver is Chairman of the Audit Committee.

## COMPANY SECRETARIES

**Angela Dent** B.Bus, CA

Ms Dent consults to a number of public and private companies, as a management accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

**John Arbuckle** B.Bus, CPA

Mr Arbuckle is an accountant with over 15 years experience in the mining industry, having occupied senior finance roles with Rio Tinto Limited, North Limited, Anaconda Nickel Limited and Perilya Limited. He is also the Chief Financial Officer of Mount Gibson Iron Limited.

# Directors' Report

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## Interests in the Shares and Options of the Company

As at the date of this report, the interests of the Directors in the Shares and Options of Mount Gibson Iron Limited were:

	Ordinary Shares	Options over Shares
WB Willis	420,000	1,440,000
BJ Johnson	-	3,960,000
CL Readhead	177,500	720,000
IA Macliver	1,081,666	1,444,444

## 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.

Mount Gibson Iron Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are:

- Mount Gibson Mining Limited;
- Whittakers Timber Pty Limited;
- Geraldton Bulk Handling Pty Ltd; and
- Asia Iron Pty Ltd.

### NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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

- mining of hematite deposits in Talling Peak;
- exploration and development of hematite and magnetite deposits in the Mid-West region of Western Australia;
- construction of infrastructures including roads and rail terminal at Talling Peak and an iron ore storage facility at Geraldton Port.

### EMPLOYEES

The Consolidated Entity employed 46 employees as at 30 June 2004 (2003: 8 employees).

### FUTURE FUNDING

As at the date of this report the Consolidated Entity has sufficient funds or funding to develop and mine the Talling Peak iron deposits.

### REVIEW AND RESULTS OF OPERATIONS

A review of the Consolidated Entity's operations are included in the Review of Projects, page 8 of this report.

### OPERATING RESULTS FOR THE PERIOD

The operating loss of the Company and Consolidated Entity, after providing for income tax of \$nil (2003: \$nil), was \$564,030 (2003: \$12,350,643) and \$10,982,911 (2003: \$12,350,643) respectively

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity other than those referred to elsewhere in this report or the financial statements or notes thereto.

### SIGNIFICANT EVENTS AFTER BALANCE DATE

On 20 September 2004, the Company announced that it will sell its 5.825 million shares (53.8% holding) in Asia Iron Pty Ltd to Hong Kong based Asia Iron Holdings Limited for A\$7.5 million which will be paid by the issue of shares in Asia Iron Holdings Limited. Whilst the rights to all technical information will transfer to Asia Iron Holdings Limited, the Company will receive \$0.25/tonne (indexed to CPI increases) for any magnetite concentrate produced from the Mt Gibson deposits and it will retain the right to mine all hematite occurring on leases held now or in the future by Asia Iron Holdings Limited in Western Australia, and to receive fees for managing its magnetite operations.

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## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in the Review of Projects and in this report, further information as to likely developments in the operations of the entity and likely results of those operations would, in the opinion of the Directors, be speculation and not in the best interest of the Company.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

Mount Gibson Mining Limited has developed Environmental Management Plans for its operations at Talling Peak and the rail head at Mullewa. The Environmental Management Plans have been approved by the West Australian Department of Industry & Resources, Department of Environment and Department of Conservation and Land Management.

The Consolidated Entity holds various environmental licenses and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulations in relation to specifying limits on discharges to the environment, rehabilitation of areas disturbed during the course of mining and exploration activities and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

## SHARE OPTIONS

Details of Options over Ordinary Shares on issue as at balance date and at the date of this report are:

Exercise Price	Exercise Date/ Period	Options on issue at	
		Balance date	Date of report
25 cents	On or before 31 December 2004	19,000,000	19,000,000
22 cents	On or before 15 October 2005	25,800,000	30,800,000
15.84 cents	On or before 28 February 2006	2,083,332	2,083,332
Total		46,883,332	51,883,332

Optionholders do not have any right, by virtue of the Option, to participate in any share issue of the Company.

As at balance date and the date of this report there are \$2,375,000 of Convertible Notes on issue, convertible to 7,916,667 shares at 30 cents per share, interest payable at 6 monthly intervals from 31 December 2002 to 31 December 2005.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has not, during the financial period, indemnified or made any relevant agreement for indemnifying, any person who is or has been an officer or auditor of the Company or a related body corporate, against a liability incurred as an officer or auditor, including costs and expenses in successfully defending legal proceedings.

During the financial year, the Company has paid premiums in respect of a contract insuring all the Directors of Mount Gibson Iron Limited against costs incurred in defending proceedings except for conduct involving:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the Corporations Act 2001,

as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$35,048. This amount has not been included in Directors' and Executives' remuneration.

# Directors' Report

## DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

### REMUNERATION POLICY

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The maximum total compensation payable to Non-executive Directors is \$150,000 and was approved by Shareholders on 18 December 2001. The Board assesses the appropriateness of the nature and amount of emoluments of all officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. To assist in achieving these objectives, the nature and amount of executive directors' and officers' emoluments are linked to the Company's financial and operational performance. All Directors and employees have the opportunity to qualify for participation in the Employee Share Scheme.

Details of the nature and amount of each element of the emolument of each Director of the Company and each of the five Executive Officers of the Company and Consolidated Entity receiving the highest emolument for the financial year are as follows:

Directors	Annual Emoluments			Termination & Similar Payments	Superannuation	Long Term Emoluments	
	Base Fee \$	Bonus \$	Other \$			Options Granted Number	Options Granted \$
WB Willis (i)	45,872	-	37,062	-	9,102	1,500,000	53,850
BG Johnson	288,433	-	-	-	-	4,000,000	143,600
CL Readhead	33,026	-	-	-	2,974	750,000	26,925
IA Macliver	33,026	-	-	-	2,974	750,000	26,925

(i) The \$37,062 paid to Mr Willis is a retainer for the provision of consulting services to Mount Gibson Mining Limited during the financial year and does not constitute directors' fees within the \$150,000 maximum approved by shareholders.

Executive Officers	Annual Emoluments			Termination & Similar Payments	Superannuation	Long Term Emoluments	
	Base Fee \$	Bonus \$	Other \$			Options Granted Number	Options Granted \$
JR Tyers	150,000	-	-	-	13,500	-	-
RJ McGregor	131,968	-	-	-	11,877	-	-
SP Coates	114,677	-	-	-	10,321	-	-
DJ Coulthard	120,000	-	-	-	-	-	-
AM Dent	108,174	-	-	-	-	-	-

From 1 July 2003, options granted as part of director and executive emoluments have been valued using the Black and Scholes option pricing model. The value of 3.59 cents per option is calculated using the following assumptions:

Share price	20.5 cents
Exercise price	22 cents
Risk free interest rate	5.55%
Volatility factor	32%
Expiry date	15 October 2005

### DIVIDENDS

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

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## DIRECTORS' MEETINGS

The numbers of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Directors' Meetings	Audit Committee Meetings
Number of Meetings Held	12	2
WB Willis	12	2
BJ Johnson	12	-
CL Readhead	12	2
IA Macliver	10	2

## TAX CONSOLIDATION

For the purposes of income tax, Mount Gibson Iron Limited and its 100% owned subsidiaries intend to form a tax consolidated group. At the date of signing the financial report, Mount Gibson Iron Limited has not determined the date of entry into tax consolidation because this decision will be based upon the most favourable outcome in terms of the transitional rules in the tax consolidation legislation. The date of entry will be determined at the time the head company lodges its tax return.

As part of the entry into consolidation, it is anticipated that members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, it is anticipated that the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payments obligations.

Entering into a tax consolidation group is not expected to have an impact on the income tax balances of the Company or the Consolidated Entity for the year ended 30 June 2004.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Mount Gibson Iron Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the additional ASX information section of this annual report.

Signed in accordance with a resolution of the Directors.



**WB Willis**

**Chairman**

Perth, 29 September 2004.

# Statement of Financial Performance

For The Year Ended 30 June 2004

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Sales revenue</b>	2	<b>14,293,488</b>	652,240	-	-
Cost of sales		<b>(11,154,702)</b>	(776,844)	-	-
<b>Gross profit/(loss)</b>		<b>3,138,786</b>	(124,604)	-	-
Other revenue from ordinary activities	2	<b>177,918</b>	417,396	<b>143,436</b>	399,085
Administration expenses		<b>(1,733,389)</b>	(272,905)	<b>(128,968)</b>	(181,247)
Corporate expenses		<b>(372,030)</b>	(479,113)	<b>(272,903)</b>	(409,116)
Borrowing expenses	3	<b>(1,363,751)</b>	(1,221,681)	<b>(305,595)</b>	(1,217,483)
Development expenses		<b>(9,228,176)</b>	-	-	-
Exploration expenses	3,5	<b>(1,601,920)</b>	(10,591,995)	-	(43,856)
Write-down of investment	5	-	-	-	(10,833,126)
Other expenses		<b>(349)</b>	(77,741)	-	(64,900)
<b>Loss from ordinary activities before income tax expense</b>		<b>(10,982,911)</b>	(12,350,643)	<b>(564,030)</b>	(12,350,643)
Income tax expense relating to ordinary activities	4	-	-	-	-
<b>Net loss</b>		<b>(10,982,911)</b>	(12,350,643)	<b>(564,030)</b>	(12,350,643)
Net loss attributable to outside equity interest		-	-	-	-
<b>Net loss attributable to members of Mount Gibson Iron Limited</b>	18	<b>(10,982,911)</b>	(12,350,643)	<b>(564,030)</b>	(12,350,643)
Share issue costs	17	<b>(150,000)</b>	(832,627)	<b>(150,000)</b>	(832,627)
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>(11,132,911)</b>	(13,183,270)	<b>(714,030)</b>	(13,183,270)
Basic loss per share (cents per share)	23	(4.04)	(7.34)		
Diluted loss per share (cents per share)	23	(4.04)	(7.34)		

# Statement of Financial Position

At 30 June 2004

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>CURRENT ASSETS</b>					
Cash assets	20(b)	<b>1,784,086</b>	3,244,041	<b>26,641</b>	2,719,244
Fixed deposit	20(b)	<b>1,895,000</b>	4,309,248	-	-
Receivables	6	<b>1,197,678</b>	163,927	<b>87,666</b>	200
Inventories	7	<b>2,797,374</b>	-	-	-
Other	10	<b>1,817,331</b>	44,424	<b>4,958</b>	3,250
<b>TOTAL CURRENT ASSETS</b>		<b>9,491,469</b>	7,761,640	<b>119,265</b>	2,722,694
<b>NON-CURRENT ASSETS</b>					
Receivables	6	-	-	<b>23,084,848</b>	14,431,033
Other financial assets	8	-	7,223,858	<b>6,798,301</b>	6,771,653
Property, plant and equipment	11	<b>16,758,280</b>	1,564,903	<b>5,400</b>	5,400
Deferred acquisition, exploration and development costs	12	<b>17,889,333</b>	8,833,133	-	-
Mine properties	13	<b>8,647,663</b>	-	-	-
Other	10	-	83,761	-	83,761
<b>TOTAL NON-CURRENT ASSETS</b>		<b>43,295,276</b>	17,705,655	<b>29,888,549</b>	21,291,847
<b>TOTAL ASSETS</b>		<b>52,786,745</b>	25,467,295	<b>30,007,814</b>	24,014,541
<b>CURRENT LIABILITIES</b>					
Payables	14	<b>9,813,544</b>	667,554	<b>159,461</b>	189,106
Interest-bearing liabilities	15	<b>7,757,213</b>	14,427	-	-
Provisions	16	<b>139,264</b>	12,014	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>17,710,021</b>	693,995	<b>159,461</b>	189,106
<b>NON-CURRENT LIABILITIES</b>					
Payables	14	<b>499,648</b>	885,000	-	-
Interest-bearing liabilities	15	<b>11,178,100</b>	2,937,865	<b>2,375,000</b>	2,875,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,677,748</b>	3,822,865	<b>2,375,000</b>	2,875,000
<b>TOTAL LIABILITIES</b>		<b>29,387,769</b>	4,516,860	<b>2,534,461</b>	3,064,106
<b>NET ASSETS</b>		<b>23,398,976</b>	20,950,435	<b>27,473,353</b>	20,950,435
<b>EQUITY</b>					
Contributed equity	17	<b>40,848,134</b>	33,761,186	<b>40,848,134</b>	33,761,186
Accumulated losses	18	<b>(23,793,662)</b>	(12,810,751)	<b>(13,374,781)</b>	(12,810,751)
Outside equity interest	19	<b>6,344,504</b>	-	-	-
<b>TOTAL EQUITY</b>		<b>23,398,976</b>	20,950,435	<b>27,473,353</b>	20,950,435

# Statement of Cash Flows

Year Ended 30 June 2004

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		<b>15,051,259</b>	960,808	-	4,925
Payments to suppliers and employees		<b>(23,483,180)</b>	(2,728,724)	<b>(466,580)</b>	(571,432)
Interest received		<b>166,211</b>	292,970	<b>143,433</b>	290,414
Borrowing costs		<b>(1,363,750)</b>	(1,221,681)	<b>(305,595)</b>	(1,217,483)
<b>Cash flows used in operating activities</b>	20(a)	<b>(9,629,460)</b>	(2,696,627)	<b>(628,742)</b>	(1,493,576)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		<b>11,707</b>	34,712	-	23,500
Purchase of property, plant and equipment		<b>(6,486,710)</b>	(1,433,986)	-	-
Loan to related parties		-	(450)	<b>(8,650,809)</b>	(9,154,437)
Purchase of controlled entity	20(e)	<b>(165,000)</b>	-	-	-
Proceeds from sale of financial assets		-	39,587	-	39,587
Payment for tenement acquisition		-	(1,712,698)	-	-
Payments for financial assets		-	(30,000)	-	-
Payments for exploration expenditure		<b>(1,603,145)</b>	-	-	-
<b>Cash flows used in investing activities</b>		<b>(8,243,148)</b>	(3,102,835)	<b>(8,650,809)</b>	(9,091,350)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of ordinary shares		<b>7,236,948</b>	10,240,295	<b>7,236,948</b>	10,240,295
Proceeds from convertible notes		-	650,000	-	650,000
Payments for performance bonds		<b>(1,895,000)</b>	-	-	-
Payments for capital raising		<b>(150,000)</b>	(928,603)	<b>(150,000)</b>	(928,603)
Repayment of lease liabilities		<b>(990,412)</b>	(12,201)	-	-
Proceeds from borrowings		<b>12,643,059</b>	-	-	-
Repayment of borrowings		<b>(5,914,144)</b>	-	<b>(500,000)</b>	-
<b>Cash flows from financing activities</b>		<b>10,930,451</b>	9,949,491	<b>6,586,948</b>	9,961,692
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>					
Add opening cash brought forward		<b>(6,942,157)</b>	4,150,029	<b>(2,692,603)</b>	(623,234)
<b>CLOSING CASH CARRIED FORWARD</b>	20(b)	<b>7,553,289</b>	3,403,260	<b>2,719,244</b>	3,342,478
		<b>611,132</b>	7,553,289	<b>26,641</b>	2,719,244

# Notes to the Financial Statements

Year Ended 30 June 2004

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## 1. STATEMENT OF ACCOUNTING POLICIES

### (a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with. The financial report has been prepared in accordance with the historical cost convention.

### (b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

### (c) Principles of consolidation

The consolidated financial statements are those of the Consolidated Entity, comprising Mount Gibson Iron Limited (the parent company) and all entities that Mount Gibson Iron Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

### (d) Foreign currencies

#### *Translation of foreign currency transactions*

Transactions in foreign currencies of entities within the Consolidated Entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary items is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

Amounts payable to and by the entities within the Consolidated Entity that are outstanding at the reporting date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

#### *Specific hedges*

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transactions arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transactions are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transactions after that date are taken to the net profit.

### (e) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

### (f) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

### (g) Investments

All investments are carried at the lower of cost and recoverable amount.

Investments in associates are carried at the lower of the equity-accounted amount and receivable amount in the consolidated financial report.

# Notes to the Financial Statements

Year Ended 30 June 2004

## 1. STATEMENT OF ACCOUNTING POLICIES (continued)

### (h) Inventories

Inventories of work in progress and finished goods are physically measured or estimated and valued at the lower of cost and net realisable value. Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced. Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value.

### (i) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value.

### (j) Property, plant and equipment

#### *Cost and valuation*

All classes of property, plant and equipment are measured at cost.

#### *Depreciation*

The cost of property, plant and equipment is written off over its expected economic life on a units-of-production method, in the establishment of which, due regard is given to the life of the related area of interest. Land associated with mining is written off over the life of the mine. Assets which are depreciated or amortised on a basis other than the units-of-production method typically have the following expected economic lives:

	2004	2003
Property, plant and equipment;		
• Buildings	5 - 20 years	5 - 20 years
• Motor vehicles	4 - 5 years	4 - 5 years
• Office equipment	3 - 5 years	3 - 5 years
• Leasehold improvements	5 - 10 years	5 - 10 years

### (k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

#### *Finance leases*

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease, a lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

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

### (l) Acquisition, exploration, evaluation, development and restoration costs

#### *Costs carried forward*

Costs arising from exploration and evaluation activities are written off as incurred, except acquisition costs which are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

#### *Amortisation*

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

#### *Restoration costs*

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or

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production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs, which have been discounted to their present value. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such mines in the future.

**(m) Mine properties**

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the Consolidated Entity in relation to areas of interest in which mining of a mineral resource has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource. Estimated future capital development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus measured resources).

**(n) Other non-current assets**

*Expenditure carried forward*

Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

**(o) Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity.

Payables to related parties are carried at the principal amount.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

**(p) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues. Convertible Notes are recorded as liabilities and are recognised when issued at the amount of the net proceeds received. Interest is recognised as an expense in the period to which it relates.

Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

**(q) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

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

**(r) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(s) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Control of the goods has passed to the buyer.

*Interest*

Control of the right to receive the interest payment.

*Dividends*

Control of the right to receive the dividend payment.

# Notes to the Financial Statements

Year Ended 30 June 2004

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## (t) Taxes

### *Income taxes*

Tax-effective accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

### *Goods and Service Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## (u) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefits liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefits expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee benefits

are recognised against profits on a net basis in their respective categories.

The value of the employee share incentive scheme described in note 22 is not being recognised as an employee benefits expense.

In respect of the Consolidated Entity's defined contribution superannuation plans, any contributions made to the superannuation plans by entities within the Consolidated Entity are recognised against profits when due.

## (v) Derivative financial instruments

### *Forward exchange contracts*

The Consolidated Entity enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the Consolidated Entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are recognised in net profit except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

## (w) Earnings per Share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
  - the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
  - other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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**(x) Repairs and maintenance**

Plant of the Consolidated Entity is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1(j). Other routine operating maintenance, repair and minor renewal costs are also recognised as expenses as incurred.

**(y) Acquisition of assets**

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**(z) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
2004	2003	2004	2003
\$	\$	\$	\$

## 2. REVENUE FROM ORDINARY ACTIVITIES

**Revenues from operating activities**

Revenue from sale of goods	<b>14,293,488</b>	652,240	-	-
Total revenues from operating activities	<b>14,293,488</b>	652,240	-	-

**Revenues from non-operating activities**

Rent	-	9,084	-	4,541
Interest – other persons/ corporations	<b>166,211</b>	292,970	<b>143,433</b>	290,414
Proceeds from disposal of property, plant and equipment	<b>11,707</b>	34,712	-	23,500
Proceeds from sale of listed investments	-	39,587	-	39,587
Export marketing grant	-	41,043	-	41,043
Other revenue	-	-	<b>3</b>	-
Total revenues from non-operating activities	<b>177,918</b>	417,396	<b>143,436</b>	399,085
<b>Total revenues from ordinary activities</b>	<b>14,471,406</b>	1,069,636	<b>143,436</b>	399,085

# Notes to the Financial Statements

Year Ended 30 June 2004

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>3. EXPENSES AND LOSSES</b>				
<b>a) Expenses</b>				
<i>Depreciation of non-current assets</i>				
Plant and equipment	<b>118,937</b>	25,684	-	-
Plant and equipment under lease	<b>1,191,290</b>	11,300	-	-
Buildings	<b>114,005</b>	-	-	-
Buildings under lease	<b>38,424</b>	-	-	-
	<b>1,462,656</b>	36,984	-	-
Decrement in the value of land	<b>69,714</b>	-	-	-
Amortisation of mine properties	<b>4,664,107</b>	-	-	-
<i>Borrowing costs expensed</i>				
Interest expense				
- finance lease	<b>473,555</b>	3,726	-	-
- loan	<b>890,196</b>	1,217,955	<b>305,595</b>	1,217,483
Total borrowing costs expensed	<b>1,363,751</b>	1,221,681	<b>305,595</b>	1,217,483
Doubtful debts	-	-	<b>(3,004)</b>	118,119
Decrement in value of investments	-	-	-	10,833,126
Operating lease rental – minimum lease payments	<b>728,002</b>	150,614	-	-
Cumulative effect of exploration costs expensed due to change in accounting policy	-	8,082,833	-	-
Exploration, evaluation and development costs written off	<b>1,601,920</b>	2,509,162	-	43,856
Total exploration, evaluation and development costs written off	<b>1,601,920</b>	10,591,995	-	43,856
<b>b) Losses/ (gains)</b>				
Net loss on disposal of financial assets	-	12,664	-	12,664
Net gain on disposal of property, plant and equipment	<b>(6,225)</b>	(11,754)	-	(4,000)

## 4. INCOME TAX

The prima facie tax on loss differs from the income tax provided in the financial statements as follows:

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
Prima facie tax on loss from ordinary activities	<b>(3,294,873)</b>	(3,705,193)	<b>(169,209)</b>	(3,705,193)
Tax effect of permanent differences				
Write down of investment	-	-	-	3,249,938
Future income tax benefit not brought to account	<b>3,294,873</b>	3,705,193	<b>169,209</b>	455,255
Income tax expense attributable to ordinary activities	-	-	-	-

### Income tax losses

Income tax losses not brought to account at reporting date as realisation of the benefit is not regarded as virtually certain

	<b>33,652,945</b>	22,670,035	<b>2,284,926</b>	1,720,896
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The future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be applied with; and
- no changes in tax legislation adversely affect the Consolidated Entity in realising the benefit.

## TAX CONSOLIDATION

For the purposes of income tax, Mount Gibson Iron Limited and its 100% owned subsidiaries intend to form a tax consolidated group. At the date of signing the financial report, Mount Gibson Iron Limited has not determined the date of entry into tax consolidation because this decision will be based upon the most favourable outcome in terms of the transitional rules in the tax consolidation legislation. The date of entry will be determined at the time the head company lodges its tax return.

As part of the entry into consolidation, it is anticipated that members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, it is anticipated that the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payments obligations.

Entering into a tax consolidation group is not expected to have an impact on the income tax balances of the Company or the Consolidated Entity for the year ended 30 June 2004.

## 5. SIGNIFICANT ITEMS

The loss from ordinary activities before income tax expense includes the following specific expenditures whose disclosure is relevant in explaining the financial performance of the entity:

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
Exploration expenditure written-off	<b>1,601,920</b>	10,591,995	-	43,856
Write-down of investment	-	-	-	10,833,126

## 6. RECEIVABLES

### Current

Trade debtors (b)	<b>1,046,299</b>	4,264	<b>9,425</b>	200
Sundry debtors (b)	<b>76,650</b>	82	<b>5,114</b>	-
Other receivables (a)	<b>74,729</b>	159,581	<b>73,127</b>	-
	<b>1,197,678</b>	163,927	<b>87,666</b>	200

### Non-current

Other receivables (a),(b)	-	-	<b>23,229,611</b>	14,578,801
Less: provision for doubtful debts	-	-	<b>(144,763)</b>	(147,768)
	-	-	<b>23,084,848</b>	14,431,033

# Notes to the Financial Statements

Year Ended 30 June 2004

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>6. RECEIVABLES (continued)</b>				
<b>a) Related party receivables</b>				
<b>Current</b>				
Associated companies	-	159,581	-	-
	-	159,581	-	-
<b>Non-current</b>				
Controlled entities	-	-	<b>23,084,848</b>	14,431,033
	-	-	<b>23,084,848</b>	14,431,033

## b) Terms and conditions

Terms and conditions relating to the above financial instruments

- i) Trade debtors are non-interest bearing and generally on 30 day terms.
- ii) Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.
- iii) Related party receivables are non-interest bearing with no fixed repayment date.

## 7. INVENTORIES

Inventory – consumables	<b>152,243</b>	-	-	-
Inventory – ore	<b>2,645,131</b>	-	-	-
	<b>2,797,374</b>	-	-	-

## 8. OTHER FINANCIAL ASSETS

### Non-current

Investments at cost comprise:

Controlled entities	-	-	<b>17,631,427</b>	17,604,779
Associated entity (a)	-	7,223,858	-	-
Less: provision for diminution	-	-	<b>(10,833,126)</b>	(10,833,126)
	-	7,223,858	<b>6,798,301</b>	6,771,653

- a) On 7th July 2003, Mount Gibson Mining Limited acquired an additional 825,000 shares in Asia Iron Pty Ltd, the company which now holds the tenements at Mt Gibson, for \$165,000. Mount Gibson Mining Limited now holds 53.8% of Asia Iron Pty Ltd resulting in Asia Iron Pty Ltd becoming a subsidiary of Mount Gibson Iron Limited at 7th July 2003.

## 9. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of equity interest held by the Consolidated Entity		Investment	
		2004 %	2003 %	2004 \$	2003 \$
Mount Gibson Mining Limited	Australia	<b>100</b>	100	<b>6,798,298</b>	6,771,650
Whittakers Timber Pty Ltd	Australia	<b>100</b>	100	<b>1</b>	1
Geraldton Bulk Handling Pty Ltd	Australia	<b>100</b>	100	<b>2</b>	2
Asia Iron Pty Ltd	Australia	<b>53.8</b>	50	-	-
				<b>6,798,301</b>	6,771,653

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>10. OTHER ASSETS</b>				
<b>Current</b>				
Rehabilitation bonds	-	30,000	-	-
Deposits paid	<b>56,109</b>	13,250	<b>3,250</b>	3,250
Prepayments	<b>411,776</b>	1,174	<b>1,708</b>	-
Hedging foreign currency deferred loss (refer Note 31)	<b>1,349,446</b>	-	-	-
	<b>1,817,331</b>	44,424	<b>4,958</b>	3,250
<b>Non-current</b>				
Expenditure carried forward	-	83,761	-	83,761
	-	83,761	-	83,761
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>				
<i>Freehold land</i>				
At cost	<b>732,628</b>	805,400	<b>5,400</b>	5,400
Decrement in the value of land	<b>(69,714)</b>	-	-	-
	<b>662,914</b>	805,400	<b>5,400</b>	5,400
<i>Plant and equipment</i>				
At cost	<b>1,670,842</b>	159,280	-	-
Accumulated depreciation	<b>(156,739)</b>	(48,836)	-	-
	<b>1,514,103</b>	110,444	-	-
<i>Plant and equipment under lease</i>				
At cost	<b>9,710,686</b>	63,166	-	-
Accumulated amortisation	<b>(1,206,270)</b>	(21,255)	-	-
	<b>8,504,416</b>	41,911	-	-
<i>Buildings</i>				
At cost	<b>5,731,857</b>	607,148	-	-
Accumulated depreciation	<b>(117,246)</b>	-	-	-
	<b>5,614,611</b>	607,148	-	-
<i>Buildings under lease</i>				
At cost	<b>500,660</b>	-	-	-
Accumulated amortisation	<b>(38,424)</b>	-	-	-
	<b>462,236</b>	-	-	-
<i>Total property, plant and equipment</i>				
At cost	<b>18,346,673</b>	1,634,994	<b>5,400</b>	5,400
Accumulated depreciation/amortisation	<b>(1,588,393)</b>	(70,091)	-	-
	<b>16,758,280</b>	1,564,903	<b>5,400</b>	5,400

# Notes to the Financial Statements

Year Ended 30 June 2004

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>11. PROPERTY, PLANT AND EQUIPMENT (continued)</b>				
<b>a) Assets pledged as security</b>				
Assets under lease are pledged as security for the associated lease liabilities.				
The value of assets pledged as security are:				
Plant and equipment	<b>1,514,103</b>	41,416	-	-
Plant and equipment under lease	<b>8,504,416</b>	41,911	-	-
Buildings	<b>5,614,611</b>	-	-	-
Buildings under lease	<b>462,236</b>	-	-	-
<b>b) Reconciliations</b>				
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year.				
<i>Plant and equipment</i>				
Carrying amount at beginning	<b>110,444</b>	131,396	-	-
Additions	<b>1,567,420</b>	27,690	-	-
Transfers	<b>(44,824)</b>	-	-	-
Disposals	-	(22,958)	-	-
Depreciation expense	<b>(118,937)</b>	(25,684)	-	-
	<b>1,514,103</b>	110,444	-	-
<i>Plant and equipment under lease</i>				
Carrying amount at beginning	<b>41,911</b>	53,211	-	-
Additions	<b>9,626,910</b>	-	-	-
Transfers	<b>41,416</b>	-	-	-
Disposals	<b>(14,531)</b>	-	-	-
Depreciation expense	<b>(1,191,290)</b>	(11,300)	-	-
	<b>8,504,416</b>	41,911	-	-
<i>Buildings</i>				
Carrying amount at beginning	<b>607,148</b>	-	-	-
Additions	<b>5,118,060</b>	607,148	-	-
Transfers	<b>3,408</b>	-	-	-
Depreciation expense	<b>(114,005)</b>	-	-	-
	<b>5,614,611</b>	607,148	-	-
<i>Buildings under lease</i>				
Carrying amount at beginning	-	-	-	-
Additions	<b>500,660</b>	-	-	-
Depreciation expense	<b>(38,424)</b>	-	-	-
	<b>462,236</b>	-	-	-

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>12. DEFERRED ACQUISITION, EXPLORATION AND DEVELOPMENT COSTS</b>				
Deferred acquisition, exploration and development costs carried forward in respect of mining areas of interest				
Tallering Peak Hematite	-	4,837,968	-	-
Mt Gibson Hematite	<b>4,021,812</b>	3,995,165	-	-
Mt Gibson Magnetite	<b>13,867,521</b>	-	-	-
	<b>17,889,333</b>	8,833,133	-	-

The ultimate recoupment of costs carried forward for exploration is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward is not being recognised pending the commencement of production. The write-down of tenements at 31 December 2003 of \$7,733,937 was reversed at 30 June 2004 as a consequence of negotiations entered into prior to balance date for the sale of the investment in Asia Iron Pty Ltd for \$7.5 million (refer Note 28).

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>13. MINE PROPERTIES</b>				
Transferred from deferred acquisition, exploration and development costs	<b>4,837,968</b>	-	-	-
Mine development expenditure	<b>8,473,802</b>	-	-	-
	<b>13,311,770</b>	-	-	-
Accumulated amortisation	<b>(4,664,107)</b>	-	-	-
	<b>8,647,663</b>	-	-	-

## 14. PAYABLES

### Current

Bank overdraft (refer Note 20(b))	<b>1,172,954</b>	-	-	-
Trade creditors (a)	<b>3,009,661</b>	388,438	<b>67,016</b>	57,381
Other creditors (a)	<b>4,281,483</b>	279,116	<b>92,445</b>	131,725
Hedging foreign currency payable (refer Note 31)	<b>1,349,446</b>	-	-	-
	<b>9,813,544</b>	667,554	<b>159,461</b>	189,106

### Non-current

Other creditors (b)	<b>499,648</b>	885,000	-	-
	<b>499,648</b>	885,000	-	-

#### a) Terms and conditions

Terms and conditions relating to the above financial instruments

- i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- ii) Other creditors are non-interest bearing and have an average term of 90 days.

#### b) Non-current payable

Interest free and payable over 10 years under contract for the purchase of land required for the rail loading area for the Tallering Peak Hematite Project at Mullewa. In accordance with AASB 1015 Acquisition of Assets, as this payment is expected to be paid on a deferred settlement basis, the liability has been discounted using a discount rate of 6%. The liability is due for repayment in October 2013.

# Notes to the Financial Statements

Year Ended 30 June 2004

## 15. INTEREST-BEARING LIABILITIES

### Current

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
Lease liability (a)	<b>1,569,362</b>	14,427	-	-
Borrowings (b)	<b>1,016,113</b>	-	-	-
Unearned revenue (c)	<b>5,171,738</b>	-	-	-
	<b>7,757,213</b>	14,427	-	-

### Non-current

Lease liability (a)	<b>7,762,035</b>	62,865	-	-
Unearned revenue (c)	<b>1,041,065</b>	-	-	-
Convertible notes (d)	<b>2,375,000</b>	2,875,000	<b>2,375,000</b>	2,875,000
	<b>11,178,100</b>	2,937,865	<b>2,375,000</b>	2,875,000

- a) Terms and condition relating to the above financial instruments;

Finance leases are repayable monthly with final instalments due in May 2009. Interest is charged at an average rate of 8.03%. The loans are secured by first mortgage over the leased assets.

- b) Packing Credit Facility held with HSBC Bank Australia Limited. Interest is payable on the outstanding balance at 3.12% pa. This is secured by a first ranking fixed and floating charge over all Mount Gibson Mining Limited's present and future assets.

- c) Stemcor (S.E.A) Limited agreed to prepay Mount Gibson Mining Limited US\$6 million for iron ore to be supplied under their Off-take Agreement. The final drawdown of US\$1.5 million of these funds was received on 5 January 2004. This is repaid over 18 months from the first shipment of ore to Stemcor (S.E.A) Limited in April 2004. Interest is payable on the outstanding balance of the prepayment at 7.15% pa. This facility is secured by an irrevocable and unconditional guarantee by Mount Gibson Iron Limited's to Stemcor, guaranteeing all Mount Gibson Mining Limited's liabilities in connection with the facility.

- d) Convertible Notes are convertible at the option of the holder to Shares at \$0.30 per share, with an interest rate of 10% payable at 6 monthly intervals from 31 December 2002 to 31 December 2005. The Convertibles Notes are unsecured.

## 16. PROVISIONS

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
Employee benefits (refer Note 22)	<b>124,191</b>	12,014	-	-
Rehabilitation (a),(b)	<b>15,073</b>	-	-	-
	<b>139,264</b>	12,014	-	-

- a) The provision for rehabilitation has been based on the experience and knowledge of the senior management and a detailed study will be conducted in 2004/05.

- b) Movements in provisions

### Rehabilitation

Carrying amount at beginning	-	-	-	-
Provision for period	<b>15,073</b>	-	-	-
Carrying amount at end	<b>15,073</b>	-	-	-

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$

## 17. CONTRIBUTED EQUITY

### a) Issued and paid up capital

Ordinary Shares fully paid	<b>40,848,134</b>	33,761,186	<b>40,848,134</b>	33,761,186
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	2004		2003	
	Number of Shares	\$	Number of Shares	\$
<b>b) Movements in shares on issue</b>				
Beginning of the financial year	<b>252,561,928</b>	<b>33,761,186</b>	118,280,904	21,228,518
Issued during the year				
- public equity raising	-	-	126,281,008	11,365,291
- purchase of Tallering Park	-	-	8,000,000	2,000,000
- equity placement	<b>39,000,000</b>	<b>7,236,000</b>	-	-
- exercise of Options	<b>3,894</b>	<b>948</b>	16	4
Less capital raising costs	-	<b>(150,000)</b>	-	(832,627)
End of the financial year	<b>291,565,822</b>	<b>40,848,134</b>	<b>252,561,928</b>	33,761,186

### c) Terms and conditions of contributed equity

Ordinary Shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

### d) Share Options

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

Exercise Price	Exercise Date/ Period	2004 Number	2003 Number
25 cents	On or before 31 December 2003	-	55,182,379
25 cents	On or before 31 December 2004	19,000,000	-
22 cents	On or before 15 October 2005	25,800,000	-
15.84 cents	On or before 28 February 2006	2,083,332	2,083,332
Total		46,883,332	57,265,711

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$

## 18. ACCUMULATED LOSSES

Accumulated losses	<b>(23,793,662)</b>	(12,810,751)	<b>(13,374,781)</b>	(12,810,751)
Balance at the beginning of the year	<b>(12,810,751)</b>	(460,108)	<b>(12,810,751)</b>	(460,108)
Net loss attributable to members of Mount Gibson Iron Limited	<b>(10,982,911)</b>	(12,350,643)	<b>(564,030)</b>	(12,350,643)
Balance at end of year	<b>(23,793,662)</b>	(12,810,751)	<b>(13,374,781)</b>	(12,810,751)

# Notes to the Financial Statements

Year Ended 30 June 2004

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>19. OUTSIDE EQUITY INTEREST</b>				
Opening balance	-	-	-	-
Add share of equity	<b>6,344,504</b>	-	-	-
Closing balance	<b>6,344,504</b>	-	-	-

## 20. STATEMENT OF CASH FLOWS

<b>a) Reconciliation of the net loss after tax to the net cash flows from operations</b>				
Net loss	<b>(10,982,911)</b>	(12,350,643)	<b>(564,030)</b>	(12,350,643)
<b>Non-cash items</b>				
Depreciation of non-current assets	<b>1,462,656</b>	36,984	-	-
Decrement in the value of land	<b>69,714</b>	-	-	-
Decrement in net market value of financial assets	-	4,300	-	4,300
Net loss on disposal of financial assets	-	8,364	-	8,364
Net profit on sale of property, plant and equipment	<b>(6,225)</b>	(11,754)	-	(4,000)
Doubtful debts expense	-	-	-	118,119
Capitalised expense	-	-	<b>(26,648)</b>	(122,224)
Capital raising expense	-	127,226	-	127,226
Write-down of investment	-	-	-	10,833,126
Exploration expenses written off	<b>1,601,920</b>	10,591,995	-	-
Mine development expenditure	<b>(8,473,802)</b>	-	-	-
Amortisation of mine properties	<b>4,664,107</b>	-	-	-
<b>Changes in assets and liabilities</b>				
(Increase)/ decrease in trade and other receivables	<b>(1,193,332)</b>	260,490	<b>(90,474)</b>	(58,115)
(Increase)/ decrease in inventory	<b>(2,797,374)</b>	232,817	-	-
(Increase) in prepayments/deposits	<b>(423,461)</b>	32,394	<b>(1,708)</b>	30,392
(Increase)/ decrease in capitalised project and acquisition expenditure	<b>83,761</b>	(2,310,919)	<b>83,761</b>	(81,411)
Increase/(decrease) in creditors and accruals	<b>6,981,083</b>	670,862	<b>(6,061)</b>	(7,865)
Increase/(decrease) in GST paid	<b>(727,773)</b>	4,062	<b>(23,582)</b>	9,155
Increase/(decrease) in employee entitlements	<b>112,177</b>	7,195	-	-
<b>Net cash flow from operating activities</b>	<b>(9,629,460)</b>	(2,696,627)	<b>(628,742)</b>	(1,493,576)
<b>b) Reconciliation of cash</b>				
Cash balance comprises:				
- cash at bank and on hand	<b>1,784,086</b>	3,244,041	<b>26,641</b>	2,719,244
- bank overdraft	<b>(1,172,954)</b>	-	-	-
	<b>611,132</b>	3,244,041	<b>26,641</b>	2,719,244
- deposits	<b>1,895,000</b>	4,309,248	-	-
	<b>2,506,132</b>	7,553,289	<b>26,641</b>	2,719,244

## 20. STATEMENT OF CASH FLOWS (continued)

### b) Reconciliation of cash (continued)

The deposit of \$1,895,000 (2002: \$nil) is not available for use as it is used as monetary backing for performance guarantees issued to cover minimum freight movement with Australian Western Railroad and lease payments with Westpac Banking Corporation. The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
Balance as above	<b>2,506,132</b>	7,553,289	<b>26,641</b>	2,719,244
Deposits relating to performance guarantees	<b>(1,895,000)</b>	-	-	-
Balance per statement of cash flows	<b>611,132</b>	7,553,289	<b>26,641</b>	2,719,244

### c) Financing facilities available

At balance date the following financing facility had been negotiated:

Total facilities				
- bank overdraft	<b>1,172,954</b>	-	-	-
- bank loan	<b>16,994,897</b>	32,988	-	-
Facilities used at reporting date				
- bank overdraft	<b>1,172,954</b>	-	-	-
- bank loan	<b>10,347,510</b>	-	-	-
Facilities unused at reporting date				
- bank overdraft	-	-	-	-
- bank loan – unused facility	<b>6,647,387</b>	-	-	-

### d) Non-cash financing activities

During the financial year, the consolidated entity acquired property, plant & equipment with an aggregate fair value of \$10,127,570 by means of finance leases.

### e) Acquisition/disposal of controlled entity

On 7th July 2003, Mount Gibson Mining Limited acquired an additional 825,000 shares in Asia Iron Pty Ltd, the company which now holds the tenements at Mt Gibson, for \$165,000. Mount Gibson Mining Limited now holds 53.8% of Asia Iron Pty Ltd resulting in Asia Iron Pty Ltd becoming a subsidiary of Mount Gibson Iron Limited at 7th July 2003.

The value of the Mt Gibson tenements, including outside equity interest, is therefore included in Deferred Acquisition, Exploration and Development Costs (refer Note 12) as at 30 June 2004.

	\$
Consideration	
- shares issued	-
- acquisition costs paid in cash	165,000
	<u>165,000</u>
Net assets of Asia Iron Pty Ltd at 7 July 2003	
- Mt Gibson tenements	13,893,068
- creditors and accruals	(159,131)
	<u>13,733,937</u>
Net cash effect	
Cash costs of acquisition	165,000
Cash included in net assets acquired	-
Cash paid for purchase of entity as reflected in the consolidated financial report	<u>165,000</u>

# Notes to the Financial Statements

Year Ended 30 June 2004

	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>21. EXPENDITURE COMMITMENTS</b>				
<b>a) Exploration expenditure commitments</b>				
Minimum obligations not provided for in the financial report and are payable: (i)				
- Not later than one year	<b>220,985</b>	573,200	-	-
- Later than one year but not later than five years	<b>883,940</b>	2,292,800	-	-
	<b>1,104,925</b>	2,866,000	-	-
<b>b) Lease expenditure commitments</b>				
<i>Operating leases (non-cancellable) (ii)</i>				
Minimum lease payments				
- Not later than one year	<b>897,760</b>	98,320	-	-
- Later than one year but not later than five years	<b>1,525,372</b>	289,945	-	-
	<b>2,423,132</b>	388,265	-	-
<i>Finance leases (iii)</i>				
Minimum lease payments				
- Not later than one year	<b>2,550,387</b>	20,245	-	-
- Later than one year but not later than five years	<b>9,978,492</b>	71,308	-	-
Total minimum lease payments	<b>12,528,879</b>	91,553	-	-
Future finance charges	<b>(2,339,047)</b>	(14,261)	-	-
	<b>10,189,832</b>	77,292	-	-
Total lease liability accrued for:				
<i>Current</i>				
Finance leases	<b>1,569,362</b>	14,427	-	-
<i>Non-current</i>				
Finance leases	<b>7,762,035</b>	62,865	-	-
	<b>9,331,397</b>	77,292	-	-

- i) In order to maintain current rights to explore and mine the Mt Gibson tenements the Consolidated Entity, on behalf of Asia Iron Pty Ltd, is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.
- ii) Operating leases:
- 1) The operating lease for office space with an initial lease term of 5 years has an implicit interest rate of 4%.
  - 2) The operating lease for machinery has a term of 5 years and expires in September 2008.
- iii) Finance leases have an average term of 4.5 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rate implicit in the leases is 8.03%. Secured lease liabilities are secured by a charge over the leased assets.

CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
2004	2003	2004	2003
\$	\$	\$	\$

## 22. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

### a) Employee benefits

The aggregate employee benefits liability is comprised of:

Accrued wages, salaries and on costs	<b>369,718</b>	21,833	<b>19,914</b>	2,858
Provisions (current)	<b>124,191</b>	12,014	-	-
	<b>493,909</b>	33,847	<b>19,914</b>	2,858

### b) Employee Share Scheme

On 30 June 2003, there were 6,314,041 options issued under the Employee Share Scheme. These options were granted and vested on 14 August 2002, expired on 31 December 2003 and had a weighted average exercise price of \$0.06. All of the 6,314,041 options lapsed on 31 December 2003. At 30 June 2004, there are no options on issue under the Scheme.

CONSOLIDATED	
2004	2003
\$	\$

## 23. EARNINGS PER SHARE

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

Losses used in calculating basic and diluted earnings per share	<b>(10,982,911)</b>	(12,350,643)
	Number of Shares	Number of Shares
Weighted average number of ordinary Shares used in calculating basic and diluted earnings per share:	<b>271,540,888</b>	168,156,428

The weighted average number of ordinary shares used in calculating diluted earnings per share is the same as for basic earnings per share, as the potential ordinary shares (options) do not increase the loss per share as compared to the basic earnings per share, and are therefore not dilutive.

## 24. DIRECTOR AND EXECUTIVE DISCLOSURES

### a) Details of Specified Directors and Specified Executives

(i) Specified directors	
WB Willis	Chairman
BG Johnson	Managing Director
CL Readhead	Director (non-executive)
IA Macliver	Director (non-executive)
(ii) Specified executives	
JR Tyers	Operations Manager
RJ McGregor	Mine Manager (commenced 30 September 2003)
SP Coates	Exploration Manager
DJ Coulthard	Commercial Manager
AM Dent	Company Secretary

### b) Remuneration of Specified Directors and Specified Executives

#### i) Remuneration Policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The maximum total compensation payable to Non-executive Directors is \$150,000 and was approved by Shareholders on 18 December 2001. The Board assesses the appropriateness of the nature and amount of emoluments of all officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. To assist in achieving these objectives, the nature and amount of executive directors' and officers' emoluments are linked to the Company's financial and operational performance. All Directors and employees have the opportunity to qualify for participation in the Employee Share Scheme.

# Notes to the Financial Statements

Year Ended 30 June 2004

## 24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### ii) Remuneration of Specified Directors and Specified Executives

		Salary & Fees	Primary Cash Bonus	Non Monetary Benefits	Post Employment Super-annuation	Retirement Benefits	Equity Options	Other Bonuses	Total
<b>Specified Directors</b>									
WB Willis (i)	2004	82,934	-	-	9,102	-	53,850	-	145,886
	2003	94,951	-	-	8,549	-	114,024	-	217,524
BG Johnson	2004	288,433	-	-	-	-	143,600	-	432,033
	2003	288,587	-	-	-	-	-	-	288,587
CL Readhead	2004	33,026	-	-	2,974	-	26,925	-	62,925
	2003	33,024	-	-	2,976	-	28,656	-	64,656
IA Macliver	2004	33,026	-	-	2,974	-	26,925	-	62,925
	2003	33,024	-	-	2,976	-	28,656	-	64,656
<b>Total Remuneration : Specified Directors</b>									
	2004	437,419	-	-	15,050	-	251,300	-	703,769
	2003	449,586	-	-	14,501	-	171,336	-	635,423
<b>Specified Executives</b>									
JR Tyers	2004	150,000	-	-	13,500	-	-	-	163,500
	2003	102,619	-	-	26,442	-	-	-	129,061
RJ McGregor	2004	131,968	-	-	11,877	-	-	-	143,845
	2003	-	-	-	-	-	-	-	-
SP Coates	2004	114,677	-	-	10,321	-	-	-	124,998
	2003	92,128	-	-	10,501	-	-	-	102,629
DJ Coulthard	2004	120,000	-	-	-	-	-	-	120,000
	2003	120,000	-	-	-	-	14,328	-	134,328
AM Dent	2004	108,174	-	-	-	-	-	-	108,174
	2003	91,600	-	-	-	-	14,328	-	105,928
<b>Total Remuneration : Specified Executives</b>									
	2004	624,819	-	-	35,698	-	-	-	660,517
	2003	406,347	-	-	36,943	-	28,656	-	471,946

(i) Included in Mr Willis' fees is \$37,062 paid as a retainer for the provision of consulting services to Mount Gibson Mining Limited during the financial year and does not constitute directors' fees within the \$150,000 maximum approved by shareholders.

### c) Remuneration Options : Granted and vested during the year

On 3 June 2004, the Directors or their nominees were issued Options as bonus payments for their efforts in assisting with the successful acquisition and development of the Tallering Peak iron ore project.

Options granted during the financial year as part of director and executive emoluments have been valued using the Black and Scholes option pricing model. The value of 3.59 cents per option is calculated using the following assumptions:

Share price	20.5 cents
Exercise price	22 cents
Risk free interest rate	5.55%
Volatility factor	32%
Expiry date	15 October 2005

## 24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### d) Option holdings of Specified Directors and Specified Executives

	Balance at Beginning of Period 1 July 2003	Granted as Remuneration	Options Exercised	Net Change (Lapsed/ Disposed)	Balance at End of Period 30 June 2004	Vested at 30 June 2004		
						Total	Not Exercisable	Exercisable
<b>Specified Directors</b>								
WB Willis	5,327,783	1,500,000	-	(5,387,783)	1,440,000	-	-	-
BG Johnson	-	4,000,000	-	(40,000)	3,960,000	-	-	-
CL Readhead	2,015,695	750,000	-	(2,045,695)	720,000	-	-	-
IA Macliver	2,065,348	750,000	-	(1,370,904)	1,444,444	-	-	-
<b>Specified Executives</b>								
JR Tyers	-	-	-	-	-	-	-	-
RJ McGregor	-	-	-	-	-	-	-	-
SP Coates	-	-	-	-	-	-	-	-
DJ Coulthard	242,847	-	-	(242,847)	-	-	-	-
AM Dent	242,847	-	-	(242,847)	-	-	-	-
<b>Total</b>	<b>9,894,520</b>	<b>7,000,000</b>	<b>-</b>	<b>(9,330,076)</b>	<b>7,564,444</b>	<b>-</b>	<b>-</b>	<b>-</b>

### e) Shareholdings of Specified Directors and Specified Executives

	Balance 1 July 2003	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2004
	Ord	Ord	Ord	Ord	Ord
<b>Specified Directors</b>					
WB Willis	420,000	-	-	-	420,000
BG Johnson	-	-	-	-	-
CL Readhead	177,500	-	-	-	177,500
IA Macliver	1,081,666	-	-	-	1,081,666
<b>Specified Executives</b>					
JR Tyers	7,220	-	-	-	7,220
RJ McGregor	-	-	-	-	-
SP Coates	1,095,000	-	-	500,000	1,595,000
DJ Coulthard	-	-	-	131,250	131,250
AM Dent	12,778	-	-	-	12,778
<b>Total</b>	<b>2,794,164</b>	<b>-</b>	<b>-</b>	<b>631,250</b>	<b>3,425,414</b>

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

### f) Loans to Specified Directors and Specified Executives

There were no loans to specified directors and specified executives during the year.

# Notes to the Financial Statements

Year Ended 30 June 2004

## 24. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### g) Other transactions and balances with Specified Directors and Specified Executives

#### Services

Pullinger Readhead Stewart, of which Mr CL Readhead is a partner, provided legal services to the Company and Consolidated Entity. The fees, paid under normal commercial terms and conditions, were \$13,551 (2003:\$24,412) and \$49,877 (2003:\$27,671) respectively.

#### Amounts recognised at the reporting date in relation to other transactions:

	CONSOLIDATED	
	2004	2003
	\$	\$
<b>Assets and Liabilities</b>		
<i>Current Liabilities</i>		
Trade Creditors	<b>18,982</b>	2,637
Total Liabilities	<b>18,982</b>	2,637
<b>Revenues and Expenses</b>		
Corporate expenses	<b>49,877</b>	27,671
Total Expenses	<b>49,877</b>	27,671

## 25. RELATED PARTY DISCLOSURES

### Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

### Wholly-owned group transactions

Loans were made by Mount Gibson Iron Limited to wholly owned subsidiaries. These loans are interest free and have no fixed repayment date.

### Director-related entity transactions

There are no director-related entity transactions other than those specified in Note 24.

CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
2004	2003	2004	2003
\$	\$	\$	\$

## 26. AUDITOR'S REMUNERATION

Amounts received or due and receivable by Ernst & Young for:

An audit or review of the financial report of the entity and any other entity in the Consolidated Entity	<b>30,000</b>	17,000	<b>12,000</b>	17,000
Other services in relation to the entity and any other entity in the Consolidated Entity	<b>2,935</b>	24,860	<b>2,285</b>	860
	<b>32,935</b>	41,860	<b>14,285</b>	17,860

## 27. CONTINGENT LIABILITY

There are no contingent liabilities which were not provided for in the financial statements of the economic entity and the Company as at 30 June 2004.

## 28. SUBSEQUENT EVENTS

On 20 September 2004, the Company announced that it will sell its 5.825 million shares (53.8% holding) in Asia Iron Pty Ltd to Hong Kong based Asia Iron Holdings Limited for A\$7.5 million which will be paid by the issue of shares in Asia Iron Holdings Limited. Whilst the rights to all technical information will transfer to Asia Iron Holdings Limited, the Company will receive \$0.25/tonne (indexed to CPI increases) for any magnetite concentrate produced from the Mt Gibson deposits and it will retain the right to mine all hematite occurring on leases held now or in the future by Asia Iron Holdings Limited in Western Australia, and to receive fees for managing its magnetite operations.

The financial effect of this event has not been recognised in the 30 June 2004 financial year.

## 29. DISCONTINUING OPERATIONS

Whittakers Timber Pty Ltd ceased operations in November 2002. There were no operations discontinued during the year.

	CONSOLIDATED	
	2004	2003
	\$	\$
Total Assets	-	15,762
Total Liabilities	-	(1,902)
Net Assets	-	13,860

## 30. 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.

Whittakers Timber Pty Limited sold timber to the building industry in the south-west of Western Australia.

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

Business Segments	Mining		Timber		Other		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>								
Sales to customers outside the Consolidated Entity	<b>14,293,488</b>	-	-	652,240	-	-	<b>14,293,488</b>	652,240
Other revenues from customers outside the Consolidated Entity	-	7,089	-	-	<b>177,918</b>	410,307	<b>177,918</b>	417,396
Total segment revenue	<b>14,293,488</b>	7,089	-	652,240	<b>177,918</b>	370,720	<b>14,471,406</b>	1,069,636
<b>Results</b>								
Segment result	<b>(7,690,907)</b>	(10,833,126)	-	(118,100)	<b>(3,292,004)</b>	(1,399,417)	<b>(10,982,911)</b>	(12,350,643)
Unallocated expenses							-	-
Net profit							<b>(10,982,911)</b>	(12,350,643)
<b>Assets</b>								
Segment assets	<b>57,076,802</b>	13,358,443	-	15,762	<b>23,115,155</b>	20,019,378	<b>80,191,957</b>	33,393,583
Eliminations							<b>(27,405,212)</b>	(7,926,288)
Total assets							<b>52,786,745</b>	25,467,295
<b>Liabilities</b>								
Segment liabilities	<b>18,802,711</b>	10,581,957	-	163,530	<b>10,585,058</b>	3,064,106	<b>29,387,769</b>	13,809,593
Eliminations							-	(9,292,733)
Total liabilities							<b>29,387,769</b>	4,516,860
<b>Other segment information</b>								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	<b>12,327,121</b>	827,690	-	-	<b>4,612,226</b>	607,148	<b>16,900,630</b>	1,434,838
Depreciation	<b>1,375,449</b>	29,220	-	7,764	<b>87,207</b>	-	<b>1,462,656</b>	36,984

# Notes to the Financial Statements

Year Ended 30 June 2004

## 31. FINANCIAL INSTRUMENTS

### a) Interest rate risk

The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are as follows:

	Fixed interest rate maturing in:				Over 1 to 5 years		Non-interest bearing		Total carrying amount per statement of financial position		Weighted average effective interest rate	
	2004	2003	2004	2003	2003	2004	2003	2004	2003	2004	2003	2004
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>i) Financial assets</b>												
Cash	1,783,786	3,243,841	-	-	300	-	200	1,784,086	3,244,041	3.97	4.73	
Fixed Deposit	145,000	4,309,248	-	-	1,750,000	-	-	1,895,000	4,309,248	2.43	4.82	
Trade and other receivables	-	-	-	-	-	-	163,927	1,197,678	163,927	N/A	N/A	
Hedging foreign currency deferred loss	-	-	-	-	-	-	-	1,349,446	-	N/A	N/A	
Unlisted shares	-	-	-	-	-	-	7,223,858	-	7,223,858	N/A	N/A	
Rehabilitation Bonds	-	-	-	-	-	-	30,000	-	30,000	N/A	N/A	
Total financial assets	1,928,786	7,553,089	-	-	4,297,424	-	7,417,985	6,226,210	14,971,074			
<b>ii) Financial liabilities</b>												
Bank overdraft	1,172,954	-	-	-	-	-	-	1,172,954	-	1.36	N/A	
Trade and other creditors	-	-	-	-	7,291,144	-	667,554	7,291,144	667,554	N/A	N/A	
Hedging foreign currency payable	-	-	-	-	-	-	-	1,349,446	-	N/A	N/A	
Lease liabilities	-	1,569,362	14,427	7,762,035	62,865	-	-	9,331,397	77,292	8.03	8.1	
Borrowings	-	1,016,113	-	-	-	-	-	1,016,113	-	3.12	N/A	
Other creditors	-	-	-	-	-	-	885,000	499,648	885,000	N/A	N/A	
Unearned revenue	-	5,171,738	-	1,041,065	-	-	-	6,212,803	-	7.15	N/A	
Convertible Notes (to be issued)	-	-	-	2,375,000	2,875,000	-	-	2,375,000	2,875,000	10.0	10.0	
Total financial liabilities	1,172,954	7,757,213	14,427	11,178,100	2,937,865	9,140,238	1,552,554	29,248,505	4,504,846			

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## 31. FINANCIAL INSTRUMENTS (CONTINUED)

### b) Net fair values

In accordance with AASB 1012 Foreign Currency Translation, foreign currency hedges have been recognised as a deferred hedging loss and foreign currency hedge payable at the difference between the hedge rate and the spot rate. The mark to market value of the deferred hedging loss is nil and deferred hedge payable is \$1,349,446 (2003: \$nil). All other recognised financial assets and liabilities have been recognised at their net fair values at balance date.

### c) Credit risk exposure

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

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The consolidated entity's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to the company. At reporting date the net amount was A\$1,349,446 (2003: \$nil).

#### *Concentration of credit risk*

The company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale.

### d) Hedging instruments

#### *Hedges for specific commitments*

Mount Gibson Iron Limited has entered into a forward exchange contract at reporting date designed as a hedge of anticipated future receipts that will be denominated in US dollars.

This hedge has been treated as specific, in accordance with UIG 33, as the approximate value of the sale and the entities with which the transactions will be entered is presently known.

The amount of recognised deferred loss included in payables at reporting date was \$1,349,446 (2003:\$nil). The mark to market value is \$17,999,710.

## 32. 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.

# Notes to the Financial Statements

Year Ended 30 June 2004

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## 32. 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. Previously, the capital gains tax effects of asset revaluation were not recognised. It is not expected that there will be any further material impact as a result of adoption of this standard.

### *Exploration and Evaluation Expenditure*

Under ED 130 Request for Comment on IASB ED 6 Exploration for a Evaluation of Mineral Resources, the company will be permitted to continue applying its current accounting policy in relation to the recognition and measurement of exploration and evaluation assets until the comprehensive project on extractive industries is finalised by the AASB and IASB. However, these assets will have to be assessed for impairment, on the initial application of the standard and annually, and this may result in the write down or off of exploration and evaluation costs currently carried forward under AASB 1022. Reliable estimation of the future financial effects of this change in accounting policy is impracticable until the final accounting standard is released.

### *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

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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 Company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
  - i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance of the year ended on that date; and
  - ii) complying with Accounting Standards and 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.

On behalf of the Board



WB Willis

Chairman

Perth, 29 September 2004

# Independent Audit Report to Members of Mount Gibson Iron Limited

**ERNST & YOUNG**

■ **Central Park**  
152 St Georges Terrace  
Perth WA 6000  
Australia

■ Tel 61 8 9429 2222  
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GPO Box M939  
Perth WA 6843

## SCOPE

### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Mt Gibson Iron Limited (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

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 company and the consolidated entity, and that complies with Accounting Standards in Australia, 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.

### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

## INDEPENDENCE


We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## AUDIT OPINION

In our opinion, the financial report of Mt Gibson Iron Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of Mt Gibson Iron Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

  
Ernst & Young

  
V W Tidy  
Partner

Perth  
Date: 30 September 2004

# ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 20 September 2004.

## (a) Distribution of equity securities

The number of Shareholders, by size of holding, in each class of Share are:

	Ordinary Shares	
	Number of Holders	Number of Shares
1 - 1,000	76	24,240
1,001 - 5,000	257	938,733
5,001 - 10,000	367	3,211,237
10,001 - 100,000	1,367	54,892,670
100,001 and over	313	232,498,942
	2,379	291,565,822
	-	-

The number of Shareholders holding less than a marketable parcel of Shares are:

## (b) Twenty largest Shareholders

The names of the twenty largest holders of quoted Shares are:

	Listed Ordinary Shares	
	Number of Shares	Percentage of Ordinary Shares
Chemco Pty Ltd	26,775,720	9.18
National Nominees Limited	24,258,151	8.32
Asia Iron Holdings Limited	19,000,000	6.52
Sinom (Hong Kong) Ltd	18,800,000	6.45
Link Traders (Aust) Pty Limited	14,243,880	4.89
Nefco Nominees Pty Ltd	7,320,742	2.51
Dominant Holdings AG	6,000,000	2.06
JP Morgan Nominees Australia Limited	3,999,157	1.37
UOB Kay Hian (Hong Kong) Limited	3,876,062	1.33
Mr Desmond George Samuel Anderson	3,000,000	1.03
Drill Investments Pty Limited	2,800,000	0.96
Quinambo Nominees Pty Ltd	2,540,000	0.87
Sinom (Hong Kong) Limited	2,450,000	0.84
Aileendonan Investments Pty Limited	2,291,682	0.79
Mr William Gordon Martin & Mrs Beverley Michelle Martin	2,200,000	0.75
Sun Hung Kai Investment Services Ltd	2,000,000	0.69
Giovanni Nominees Pty Ltd	1,866,777	0.64
Osson Pty Ltd	1,830,937	0.63
Queensland Investment Corporation	1,574,500	0.54
888 Trading Limited	1,500,000	0.51
	148,327,608	50.88

# ASX Additional Information

## (b) Twenty largest Optionholders

The names of the twenty largest holders of quoted Options are:

	Number of Options	Listed Ordinary Options Percentage of Ordinary Options
Yangtze Investments Limited	10,000,000	32.47
Mr Brian Johnson	3,960,000	12.86
Zeltex (HK) Company	3,800,000	12.34
Mr William Brand Willis + Ms Rhonda Marlene Willis	1,420,000	4.61
Mr Ng Yau Tung	1,100,000	3.57
Mr Chen Jian	1,000,000	3.25
Miss Pan Yu	900,000	2.92
Miss Gua Connie Ying	750,000	2.44
Miss Wang Jian Ying	750,000	2.44
Strategysearch Consulting Services Pty Ltd	730,000	2.37
Cornela Pty Ltd	720,000	2.34
Hengolo Pty Ltd	710,000	2.31
Ms Angela Dent	600,000	1.95
Ms Katherine Therese Taylor	600,000	1.95
Miss Leng Jia	500,000	1.62
Mr Sheldon Philip Coates	400,000	1.30
Mr James Ronan Tyers	380,000	1.23
Mr Sheldon Philip Coates	350,000	1.14
Ms Kerry Anita Davies	250,000	0.81
Mr Warwick Jeffrey Davies	250,000	0.81
	29,170,000	94.73

## (c) Substantial Shareholders

The names of Substantial Shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of Shares
Chemco Pty Ltd and WG & BM Martin	28,975,720
National Nominees Limited and Queensland Investment Corporation	25,832,651
Sinom (Hong Kong) Ltd	21,250,000
Asia Iron Holdings Limited	19,000,000
Link Traders (Aust) Pty Ltd	14,243,880

## (d) Voting rights

All ordinary Shares carry one vote per Share without restriction.

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**(e) Schedule of interests in mining tenements**

Location	Tenement	Percentage Held
Mt Gibson	EL 59/1016	53.8
Mt Gibson	M 59/338	53.8
Mt Gibson	M 59/339	53.8
Mt Gibson	M 59/454	53.8
Mt Gibson	M 59/455	53.8
Mt Gibson	M 59/526	53.8
Mt Gibson	M 59/550	53.8
Tallering Peak	M 70/896	100
Tallering Peak	M 70/1062	100
Tallering Peak	M 70/1063	100
Tallering Peak	M 70/1064	100
Tallering Peak	G 70/192	100
Tallering Peak	G 70/193	100
Tallering Peak	G 70/201	100
Tallering Peak	G 70/202	100
Tallering Peak	G 70/203	100
Tallering Peak	G 70/204	100
Tallering Peak	G 70/205	100
Tallering Peak	L 70/60	100
Tallering Peak	L 70/69	100
Tallering Peak	L 70/73	100
Tallering Peak	L 70/74	100

**(f) Net tangible assets backing**

	CONSOLIDATED	
	2004	2003
Net tangible assets per ordinary shares	\$ 0.080	\$ 0.083

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# Corporate Governance Statement

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## THE BOARD AND CORPORATE GOVERNANCE

The Mount Gibson Iron Limited Board is committed to protecting and enhancing shareholder value and conducting the Company's business ethically and in accordance with high standards of corporate governance.

An important regulatory feature for listed companies reporting on their corporate governance practices is the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles). The ASX Principles were released in March 2003, and provide the corporate governance standard against which listed companies must report each year in their Annual Reports. Under ASX Listing Rule 4.10.3, listed companies must disclose the extent to which they followed the ASX Principles, and if any of the recommendations have not been followed then the company must explain why not.

The requirements under Listing Rule 4.10.3 apply to the Company for the financial year ended 30 June 2004, and this corporate governance statement therefore, sets out and explains any departures by the Company from the ASX Principles.

## THE MOUNT GIBSON IRON CORPORATE GOVERNANCE WEBSITE

The Company's website is being re-designed to provide more information, including information relating to the Company's corporate governance policies and practices. When complete our website at [www.mtgibsoniron.com.au](http://www.mtgibsoniron.com.au) will include the following documents:

- Board Charter
- Policy on Independence of Directors
- Continuous Disclosure and Market Communications Policy
- Guidelines for Ethics and Conduct
- Guidelines for Conduct of Directors

The Board is continuing to review and develop its corporate governance practices and the corporate governance section of the website will be updated with policies and procedures as they are formally adopted by the Company.

## THE ROLE OF THE BOARD AND THE BOARD CHARTER

The Mount Gibson Iron Limited Board Charter was formally adopted on 28 July 2004 and sets out the following overall powers and responsibilities of the Board:

- charting the direction, strategies and financial objectives of the Company and monitoring their implementation; and
- monitoring compliance with regulatory requirements and ethical standards.

Specific powers and responsibilities set out in the Board Charter include:

- the appointment, and monitoring the performance, of the Managing Director and Company Secretary, approving other key executive appointments and planning for executive succession;
- providing direction for, and approving, strategic plans and objectives;
- monitoring and assessing strategic and operational performance; and
- approving and monitoring processes, procedures and systems that provide financial control and accountability and ensure accurate and timely financial reporting.

The Board considers that the Board Charter appropriately sets out the functions and responsibilities of the Board, and the Board has not separately formalised the functions delegated to management.

The Board has also adopted Guidelines for Conduct of Directors to promote ethical and responsible decision making by Directors, based on the values of honesty, integrity, accountability, independence and equality of Shareholder opportunity. Detailed policies and procedures to clarify the expected standards of ethical behaviour, detail the responsibility and accountability of individuals (ASX Principal 3.1) and detail the policies concerning trading in the Company's Securities (ASX Principal 3.2) will be developed by the Board.

## BOARD COMPOSITION

The Mount Gibson Iron Board has four Directors: three Non-Executive Directors including the Chairman, and one Executive Director.

Board composition will be reviewed annually to ensure that the non-executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. Non-executive Directors are required to retire and stand for re-election by Shareholders, every three years.

Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report are set out on page 17.

The Board may have access to independent advisers where it sees need.

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## DIRECTOR INDEPENDENCE

On 28 August 2004 the Board adopted a Policy on Independence of Directors to provide criteria for the assessment of the independence of Directors. The criteria used are those recommended by the ASX Guidelines. A Director may be considered by the Board to be independent where the Director does not meet one or more of the criteria. The test of independence of a Director, as recommended by the ASX Guidelines, is that they should be free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors unfettered and independent judgement.

The Board consider that the Non-Executive Directors are independent. In making this assessment the following were considered in relation to the criteria and the test for independence:

- Bill Willis provides consultancy services to Mount Gibson Iron Limited and its subsidiaries when required, and has a contract with the Company in relation to the provision of those services. Based on the nature, infrequency and irregularity of the consulting services provided, the Board concluded that the relationship would not interfere with Mr Willis' independent judgement.
- Craig Readhead and Pullinger Readhead Lucas (and previously Pullinger Readhead Stewart) a law firm of which he is a partner, provide legal services to Mount Gibson Iron Limited. The fees in relation to these legal services are not material to the Company or to the provider.
- Ian Macliver is a director and shareholder of Grange Consulting Pty Ltd which provided management, accounting and administration services to the Company prior to the "back-door" listing of Mount Gibson Mining Limited in January 2002. Grange Consulting continued to provide these services for Whittakers Timber Pty Ltd (subsidiary) until June 2002. Based on the time since the services were provided, and that the services were provided in relation to the Company prior to the acquisition of Mount Gibson Mining Limited, the Board concluded that the relationship would not interfere with Mr Macliver's independent judgement.

## BOARD MEETINGS

The Board meets at least eleven times each year, and full Board meetings are usually held monthly. From time to time meetings are convened outside the scheduled dates to consider issues of importance. In addition the Board conducts visits to the mine sites when appropriate.

Directors' attendance at Board and Committee meetings is detailed on page 21.

## BOARD COMMITTEES

Mount Gibson Iron Limited's Board has established an Audit Committee. It has not established a nomination committee (ASX Principal 2.4) or a remuneration committee (ASX Principal 9.2) as it believes the Company is not of a size to justify these committees. The recommended functions of these committees are fulfilled by the Board.

### Audit Committee

The structure of the Audit Committee complies with the ASX Principles, it does not currently have a formal charter (ASX Principle 4.4).

The Committee meets generally two times during a financial year. Committee members' attendance at Audit Committee meetings is detailed on page 21.

The Audit Committee's overall role is to assist the Board in fulfilling its responsibilities for the Company's financial reporting and audit, internal control and financial risks.

The Audit Committee's specific responsibilities include (but are not limited to):

- evaluating the effectiveness of the Company's internal control measures, and gaining an understanding of whether internal control recommendations made by external auditors have been implemented;
- understanding the current areas of greatest financial risk for the Company and management's response to minimising those risks;
- reviewing significant accounting and reporting issues; and
- reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit.

The Chief Financial Officer and the External Auditors usually attend Audit Committee meetings.

## FINANCIAL REPORTING

Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the financial year ended 30 June 2004 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

- compliance with Mount Gibson Iron Limited's accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

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## INDEMNITIES

The Company has entered into deeds of access, indemnity and insurance with each Director. These deeds provide access to documentation, indemnification against liability from conduct of the Company's business and subsidiaries, and Directors' and officers' liability insurance.

## DIRECTORS AND EXECUTIVES PERFORMANCE EVALUATION AND REMUNERATION

The Board's policy with respect to performance evaluation is to review its performance and that of its Committees and Executive Management at least annually. Procedures and criteria for performance evaluation of the Board, individual Directors and key executives are being developed (ASX Principle 8.1).

The Company's remuneration policies (ASX Principle 9.1) are being developed in conjunction with its policy for performance evaluation. These policies will be available on the Company's website when completed and approved by the Board.

## CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATIONS

Mount Gibson Iron Limited adopted its Continuous Disclosure and Market Communications Policy on 28 July 2004, the policy is consistent with the Board's informal policies and procedures that were in place prior to the adoption of the formal policy. The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

The Continuous Disclosure Policy sets out the type of information to be disclosed, and the procedures in place to ensure timely and appropriate disclosure is made. It also deals with:

- accuracy of reporting;
- authorised spokespersons;
- market speculation and rumour;
- trading halts;
- investors and analysts briefing;
- pre-results period; and
- web-based communication.

A formal separate policy on shareholder communication (ASX Principle 6.1) has not yet been developed. Procedures to promote effective communication with shareholders and to facilitate shareholders asking questions of the auditors at the AGM (ASX Principle 6.2) will be developed during the year.

Shareholders may elect to receive company reports by mail or e-mail.

## RISK MANAGEMENT

The Board is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

- ensure compliance in legal statutory and ethical matters;
- monitor the business environment;
- identify business risk areas; and
- identify business opportunities.

The Board has not yet formalised these policies (ASX Principle 7.1). The Company does not have a formal internal control function (ASX Principle 7.2) as the Board considers that the Company is not of a size to warrant the implementation of a separate internal control function.

## ADOPTION OF ASX CORPORATE GOVERNANCE GUIDELINES

The Board did not adopt formal policies and procedures until 28 July 2004. The adoption of formal policies was generally recognition and recording of informal policies which existed throughout the year. The Mount Gibson Iron Limited Board will continue to develop, refine and adopt policies and procedures to comply with ASX Corporate Governance Guidelines, and to discharge its obligations and responsibilities to shareholders and other stakeholders of the Company.



## **MOUNT GIBSON**

**IRON LIMITED**

The Mount Gibson Iron Limited Board will continue to develop, refine and adopt policies and procedures to comply with ASX Corporate Governance Guidelines, and to discharge its obligations and responsibilities to shareholders and other stakeholders of the Company.



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