



MOUNT GIBSON IRON LIMITED

[ABN: 87 008 670 817]

ANNUAL REPORT 2003



BOARD OF DIRECTORS

BILL WILLIS	Executive Chairman
BRIAN JOHNSON	Managing Director
CRAIG READHEAD	Non-Executive Director
IAN MACLIVER	Non- Executive Director

COMPANY SECRETARY

Angela Dent

REGISTERED OFFICE

Level 1, 7 Havelock Street
West Perth 6005, Western Australia
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Facsimile: 61-8-9485-2305
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SOLICITORS

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

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth 6000, Western Australia
Telephone: 61-8-9323-2000
Facsimile: 61-8-9323-2033

AUDITORS

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

BANKERS

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



*Photos front cover and above:
Preparation of first bench of Talling Peak Hematite Mine, October 2003.*



CHAIRMAN'S LETTER

Dear Shareholder,

It is a pleasure to present Mount Gibson Iron Limited's second Annual Report since its listing as an emerging iron ore producer on the Australian Stock Exchange in January 2002.

The year under review has seen the successful advancement of the Company's objective of progressively developing its extensive iron deposits in the Midwest Region of Western Australia.

Despite problems related to the failure of a European investor to meet its commitment to subscribe for \$11.0 million of shares in the Company late last year, a 20% increase in the Australian dollar against the US dollar, and delays to the dredging program at the Port of Geraldton, the Company has managed to overcome these negative impacts and maintain financial projections for its first mine at Tallering Peak.

A successful one for one rights issue to Shareholders in February 2003 raised \$11.4 million of additional working capital, albeit at a deep discount to the prevailing share price. These funds, together with a \$9.0 million unsecured financing facility provided by one of our Shareholders, Stemcor Limited, will allow the Company to undertake mining operations itself rather than employ contractors.

The resultant saving in operational costs together with recent price rises for iron ore have largely offset reduced margins from the higher exchange rate. Mining of hematite has commenced at Tallering Peak, with the first shipment of ore expected in late January 2004.

Our focus will soon shift to doubling production of direct shipping grade hematite to 3.0mtpa with the development of the Company's second mine at Mt Gibson, planned for commissioning in the second quarter of 2005.

The iron ore market is exceptionally strong and likely to remain so for several years based on predicted growth in steel production in China, with the Company benefiting through the securing of long term sales contracts for all of its planned hematite production.

Discussions are also underway with Chinese consumers to supply an initial 2Mt of magnetite concentrate from one of the Company's magnetite deposits, with the prospect of the third project being in production in the second half of 2005.

The Company is well positioned to develop into a significant supplier of iron ore to the Chinese steel industry.

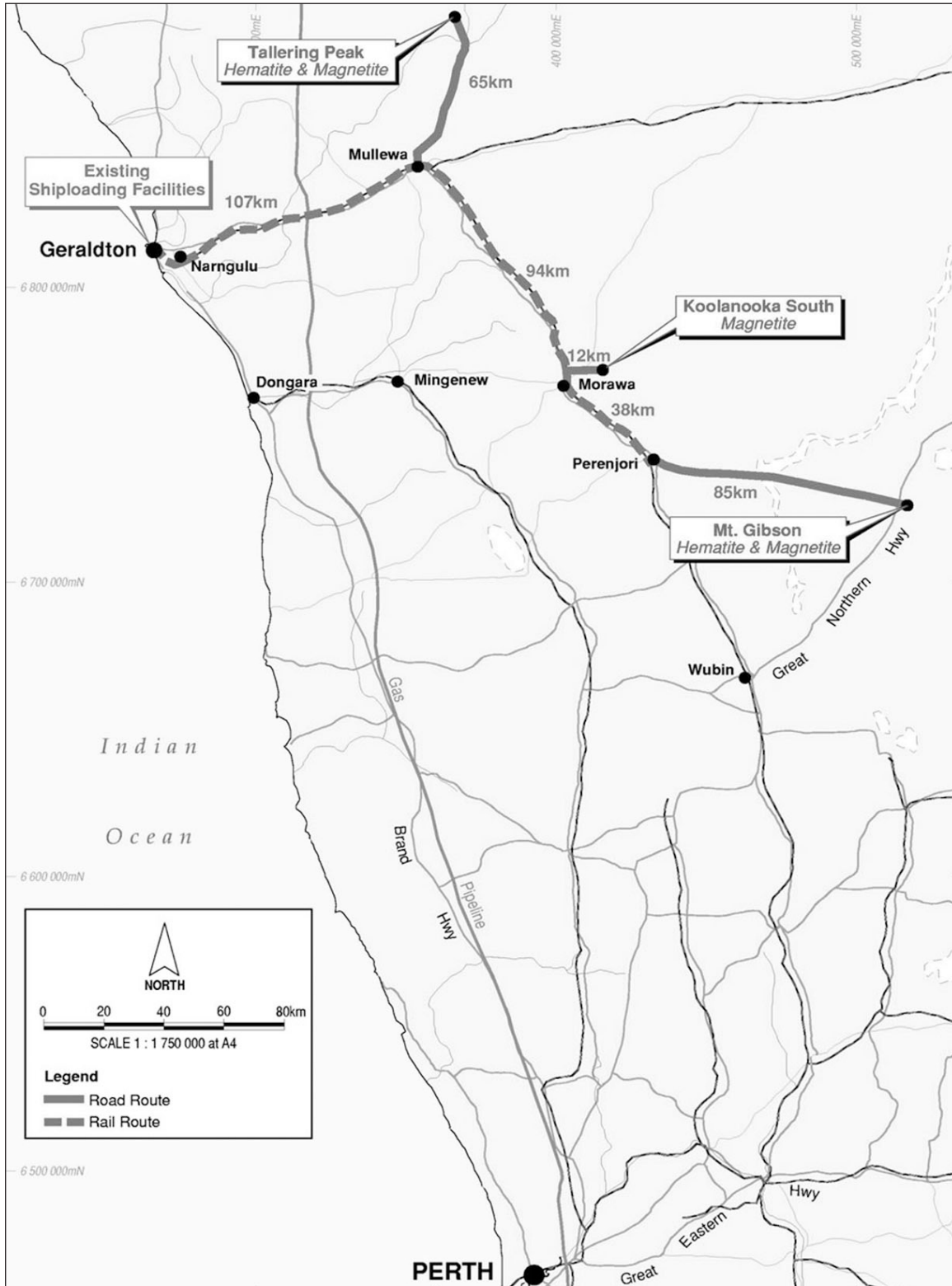
Yours faithfully

A handwritten signature in black ink, appearing to read "W. Willis", with a small flourish at the end.

WILLIAM B WILLIS
CHAIRMAN

Perth, September 30, 2003

PROJECT LOCATIONS

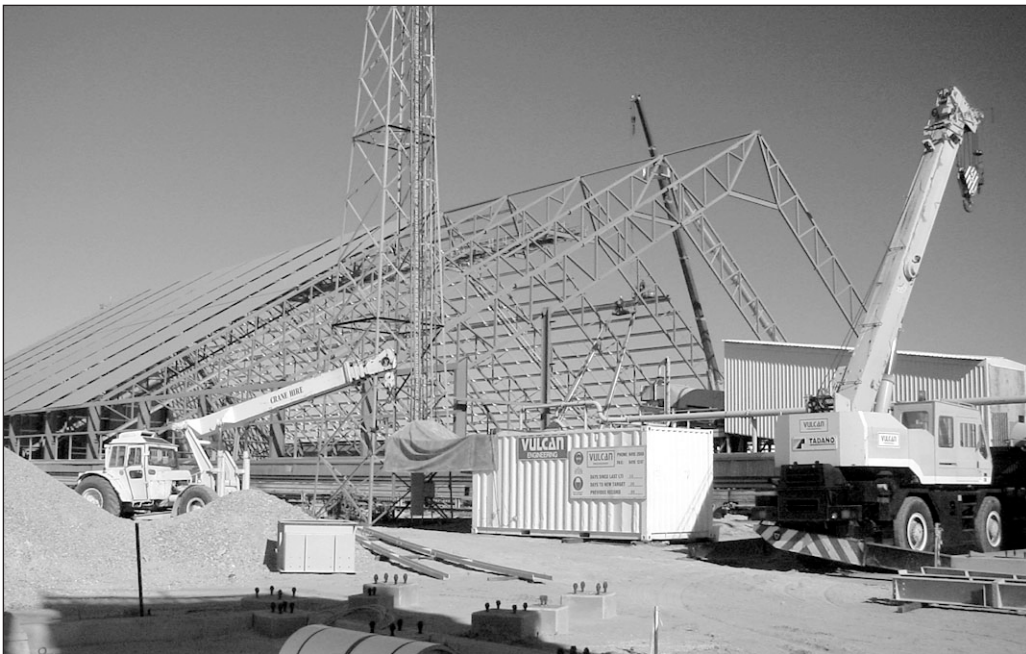


Mount Gibson Iron intends to progressively develop a number of iron deposits (hematite and magnetite) in the Midwest region of Western Australia which it owns, or over which it holds mining rights.

Exports of the Company's iron products will be made through the Port of Geraldton where a \$100 million dredging and facilities upgrade is nearing completion.

The Company is currently constructing a 150,000t capacity storage shed on land leased from the Geraldton Port Authority for 50 years.

Additional leased land is held under option and expected to be taken up to expand storage capacity as exports are increased.



Company's Iron Ore Storage Facility under construction at Geraldton Port.



Berth Four Shiploader at Geraldton Port.



REVIEW OF PROJECTS

TALLERING PEAK HEMATITE

The Company's first iron ore mine is currently being developed at Talling Peak, 172km by road and rail from Geraldton (refer map on page 2). Mining has recently commenced and the first shipment of hematite is scheduled for January 2004.

Mining operations at Talling Peak are being undertaken by the Company utilising leased equipment, with all other elements of the project including crushing and screening of the ore, road haulage, rail transport, and ship loading, being carried out by experienced contractors.

The Company's investment in the project including acquisition of the Mining Leases at Talling Peak for \$4.5 million, construction of storage facilities at Geraldton, road upgrades, a rail terminal at Mullewa, mine establishment, infrastructure and pre-stripping of waste, will total approximately \$20 million.

Mine planning has been completed for the first five years at a production rate of 1.6 Mtpa. The life of the mine is expected to be 8 to 10 years dependent on the results of further infill drilling.

All ore produced has been sold forward for the life of the Talling Peak mine, with about 50% going to two trading companies, Stemcor (S.E.A.) Pte Ltd and Sinom (Hong Kong) Ltd, and 50% to two end-users, Glencore International AG and Prosperity Minerals (Asia) Limited. Prices are linked to the prevailing published fob prices for iron ore sold by Hamersley Iron from its Pilbara ports, and will be reviewed annually. Talling Peak iron ore is of high quality, being hard sharp ore with minimum degradation in handling, or decrepitation in the blast furnace. Approximately 70% of production will be higher valued lump ore, compared with a more typical 50% for Western Australian ores.

MOUNT GIBSON HEMATITE

Subject to receipt of environmental and other approvals within the next twelve months, the Company intends to proceed with the development of a 1.5Mtpa hematite mine on the Extension Hill and Iron Hill deposits within the Mt Gibson range, with the first shipments of ore planned for the second quarter of 2005.

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.

Additional expenditure of approximately \$12 million will be required for ore storage and a new shiploader at Geraldton, but it is probable these facilities will be provided by a specialist stevedoring company.

Though the rail and road distance from the port to Mt Gibson is 325km, and 153km in excess of that to the Talling Peak mine, the extra haulage costs will be largely offset by a much lower waste to ore ratio at both the Extension Hill and Iron Hill pits.

The life of the Mt Gibson hematite mine is expected to be in the order of ten years subject to the results of a near term infill drilling program.

The hematite ore from Mt Gibson has been sold for the life of mine to Stemcor (S.E.A.) Pte Ltd and Sinom (Hong Kong) Ltd.

Though the Mt Gibson ore is softer than Talling Peak ore, with a 47% to 53% lump ore to fines ratio, it is excellent quality with low levels of contaminants.

TALLERING PEAK MAGNETITE

Preliminary planning is underway for what the Company hopes will be its third project, this being the production of 2Mt of magnetite concentrate for export to Chinese producers of iron pellets.

The Company's Exploration Manager has reported the prospect of a 30Mt to 50Mt resource of magnetite occurring in the North Range at Talling Peak with drilling results and recent metallurgical testwork indicating the likelihood of being able to produce 65% Fe content concentrate without having to excessively grind the ore before beneficiation.

The testwork has also indicated low contaminant levels and an attractive product specification for pellet makers. With a gas transmission line adjacent to the Company's rail terminal at Mullewa, the possibility exists to generate relatively low cost power for the crushing and grinding circuit of the concentrator which will have to be built to produce pellet feed.

A drilling program and associated metallurgical testwork over the next six months will determine the viability of the planned project.

The economic benefits of utilising the infrastructure and management team assembled for the Talling Peak hematite project are considerable.

A substantial Chinese mill has offered the Company a ten year purchase contract for 2Mtpa of magnetite concentrate from Talling Peak and negotiations are progressing.

KOOLANOOKA SOUTH MAGNETITE

The Company has reached agreement in principle to establish mining rights over extensive magnetite deposits located to the south and adjacent to old hematite mine workings at Koolanooka which ceased production in 1974.

The area of the Koolanooka Hills which is of interest to the Company is highly weathered with little remaining oxidised hematite ore at the surface.

The magnetite is outcropping or near surface over a 4 km strike length and is considered to be a significant drilling target. Though any development to produce magnetite concentrate at Koolanooka South would have to be a stand alone development without the benefits of infrastructure that will be available at Talling Peak, the mine site is located only 12km from the rail system connected to Geraldton and could be easily and economically linked.

Subject to results from a preliminary drilling program in the next few months, a decision will be taken to nominate this prospect as the Company's fourth project, which would also focus on the production of 2 Mtpa of magnetite concentrate for export to China.

MT GIBSON MAGNETITE

The Company holds a 54% controlling interest in the extensive Mt Gibson magnetite deposits and has spent over \$10 million establishing reserves at Extension Hill of over 200Mt, at low stripping rates.

With less than 15% of the Mt Gibson Ranges explored to date, the Company's geologists are confident of establishing additional resources of between 500Mt and 1000Mt with further exploration.

It will probably be at least five years before consideration could be given to establishing a large scale (5Mtpa) magnetite concentrate operation at Mt Gibson as it will require extensive capital to construct a 300km pipeline to economically transport the concentrate in slurry form to the port.



ANNUAL FINANCIAL REPORT

For The Year Ended 30 June 2003

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DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2003.

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 (Executive Chairman)

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

Brian Johnson (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 the 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 (Non-Executive Director)

Mr Readhead holds the degrees Bachelor of Laws and Bachelor of Jurisprudence from the University of Western Australia. He has spent the last 24 years practising in the resources law area and is now a partner of law firm Pullinger Readhead Stewart. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. Mr Readhead is a Director of a number of listed and unlisted mining and exploration companies, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies.

Ian Macliver (Non-Executive Director)

Mr Macliver is a Chartered Accountant with 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 a Director of a number of public companies.



DIRECTORS' REPORT

COMPANY SECRETARY

Angela Dent

Ms Angela Dent is a Chartered Accountant who 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.

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
B Willis	420,000	5,327,783
B Johnson	-	-
C Readhead	177,500	2,015,695
I Macliver	1,081,666	2,065,348

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia.

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; and
- Geraldton Bulk Handling Pty Ltd.

The Consolidated Entity was formed on 31 December 2001, Consolidated Entity comparative amounts are for the 6 month period ended 30 June 2002.

Nature of Operations and Principal Activities

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

- exploration and development of hematite and magnetite deposits in the Mid-West region of Western Australia;
- construction of an iron ore storage facility at Geraldton Port;
- supply of timber to the building industry in the South-West region of Western Australia (ceased December 2002).

Employees

The Consolidated Entity employed 8 employees as at 30 June 2003 (2002: 10 employees).

Future Funding

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



DIRECTORS' REPORT

REVIEW AND RESULTS OF OPERATIONS

A review of the Consolidated Entity's operations are included in the Review of Projects, page 3 of this report.

Operating Results for the Period

The operating loss of the Company and Consolidated Entity, after providing for income tax of \$nil (2002: \$nil), was \$12,350,643 (2002: \$400,300) and \$12,350,643 (2002: \$400,300) 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 7 July 2003 Mount Gibson Mining Limited acquired an additional 825,000 shares in Asia Iron Pty Ltd, the Company which holds the tenements at Mt Gibson. The cost of acquisition was \$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 Ltd as at 7 July 2003.

On 25 August 2003 Mount Gibson Iron Limited signed a Share Subscription Agreement whereby Sinom (Hong Kong) Limited will subscribe for 18.8 million shares at 17 cents each on 15 October 2003 to raise \$3.196 million. The funds will be utilised for the development of the Company's second mine at Mt Gibson.

On 30 September 2003 Mount Gibson Mining Limited formalised an unsecured US\$6.0 million finance facility, provided by one of the Company's shareholders, Stemcor (S.E.A.) Pte Ltd. The facility will allow the Company to undertake mining operations at the Talling Peak Hematite Project in its own right and meet associated infrastructure and pre-stripping costs, rather than utilising contractors.

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 terminal 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.

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 2003	55,182,379	55,182,379
15.84 cents	On or before 28 February 2006	2,083,332	2,083,332
Total		57,265,711	57,265,711

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 \$2,875,000 of Convertible Notes on issue, convertible to 9,583,333 shares at 30 cents per share, 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 \$42,876. This amount has not been included in Directors and Executives remuneration.

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.

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

Directors	Annual Emoluments			Termination & Similar Payments	Super-annuation	Long Term Emoluments	
	Base Fee	Bonus	Other			Options Granted	
	\$	\$	\$	\$	\$	Number	\$
B Willis	78,896	-	16,055	-	8,549	1,942,783	114,624
B Johnson	288,587	-	-	-	-	-	-
C Readhead	33,024	-	-	-	2,976	485,695	28,656
I Macliver	33,024	-	-	-	2,976	485,695	28,656

Executive Officers	Annual Emoluments			Termination & Similar Payments	Super-annuation	Long Term Emoluments	
	Base Fee	Bonus	Other			Options Granted	
	\$	\$	\$	\$	\$	Number	\$
S Coates	92,128	-	-	-	10,501	-	-
D Couthard	120,000	-	-	-	-	242,847	14,328
W Davies	100,000	-	-	-	-	-	-
A Dent	91,600	-	-	-	-	242,847	14,328
J Tyers	102,619	-	-	-	26,442	-	-

The Options over Shares were granted to Directors and Executive Officers, or their nominees, under the Company Employee Share Scheme (refer Note 20). The Options are all exercisable at 25 cents on or before 31 December 2003 and were valued at market value on the date of issue (5.9 cents each). Market value as at the date of this report is 0.4 cents each.

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	16	1
Number of Meetings Attended		
B Willis	16	1
B Johnson	15	-
C Readhead	16	1
I Macliver	14	1

Members acting on the Audit Committee are B Willis (Chairman), C Readhead, I Macliver and A Dent.

DIVIDENDS

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

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.

No adjustments have yet been made to reflect the Company's possible intention to form a consolidated tax group.

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 on page 40 of this annual report.

Signed in accordance with a resolution of the Directors.



WB Willis
Chairman

Perth, 30 September 2003.

STATEMENT OF FINANCIAL PERFORMANCE

For The Year Ended 30 June 2003

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
REVENUES FROM ORDINARY ACTIVITIES	2	1,069,636	1,845,221	399,085	1,037,232
Cost of goods sold (timber business)		(599,038)	(968,478)	-	(334,722)
Operating expenses (timber business)		(177,806)	(372,959)	-	(178,220)
Administration expenses		(272,905)	(550,198)	(181,247)	(469,818)
Corporate expenses		(479,113)	(310,592)	(409,116)	(268,603)
Borrowing expenses	3	(1,221,681)	(4,255)	(1,217,483)	(1,185)
Exploration expenses	3	(10,591,995)	-	(43,856)	-
Write-down of investment	5	-	(33,700)	(10,833,126)	(179,645)
Other expenses		(77,741)	(5,339)	(64,900)	(5,339)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(12,350,643)	(400,300)	(12,350,643)	(400,300)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	-	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF MOUNT GIBSON IRON LIMITED	17	(12,350,643)	(400,300)	(12,350,643)	(400,300)
Share issue costs	16	(832,627)	(250,131)	(832,627)	(250,131)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		(13,183,270)	(650,431)	(13,183,270)	(650,431)
Basic loss per share (cents per share)	22	(7.34)	(0.59)		
Diluted loss per share (cents per share)	22	(7.34)	(0.59)		

STATEMENT OF FINANCIAL POSITION

For The Year Ended 30 June 2003

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets	18[b]	3,244,041	3,403,260	2,719,244	3,342,478
Fixed deposit	18[b]	4,309,248	-	-	-
Receivables	6	163,927	1,071,086	14,060	767,834
Inventory	7	-	232,817	-	-
Other financial assets	8	-	52,250	-	52,250
Other	10	44,424	46,818	3,250	33,642
TOTAL CURRENT ASSETS		7,761,640	4,806,231	2,736,554	4,196,204
NON-CURRENT ASSETS					
Receivables	6	-	159,131	14,417,173	2,269,716
Other financial assets	8	7,223,858	7,223,858	6,771,653	17,482,555
Property, plant and equipment	11	1,564,903	190,007	5,400	5,400
Acquisition, exploration and development costs	12	8,833,133	12,355,774	-	-
Other	10	83,761	5,352	83,761	2,350
TOTAL NON-CURRENT ASSETS		17,705,655	19,934,122	21,277,987	19,760,021
TOTAL ASSETS		25,467,295	24,740,353	24,014,541	23,956,225
CURRENT LIABILITIES					
Payables	13	667,554	3,877,630	189,106	3,187,815
Interest-bearing liabilities	14	14,427	12,948	-	-
Provisions	15	12,014	4,819	-	-
TOTAL CURRENT LIABILITIES		693,995	3,895,397	189,106	3,187,815
NON-CURRENT LIABILITIES					
Payables	13	885,000	-	-	-
Interest-bearing liabilities	14	2,937,865	76,546	2,875,000	-
TOTAL NON-CURRENT LIABILITIES		3,822,865	76,546	2,875,000	-
TOTAL LIABILITIES		4,516,860	3,971,943	3,064,106	3,187,815
NET ASSETS		20,950,435	20,768,410	20,950,435	20,768,410
EQUITY					
Contributed equity	16	33,761,186	21,228,518	33,761,186	21,228,518
Accumulated losses	17	(12,810,751)	(460,108)	(12,810,751)	(460,108)
TOTAL EQUITY		20,950,435	20,768,410	20,950,435	20,768,410

STATEMENT OF CASH FLOWS

For The Year Ended 30 June 2003

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003 \$	2002 \$	2003 \$	2002 \$
CASH FLOWS USED IN OPERATING ACTIVITIES					
Receipts from customers		960,808	1,026,181	4,925	588,673
Payments to suppliers and employees		(2,728,724)	(3,325,927)	(571,432)	(1,053,012)
Interest received		292,970	60,387	290,414	60,387
Borrowing costs		(1,221,681)	(5,234)	(1,217,483)	(1,185)
CASH FLOWS USED IN OPERATING ACTIVITIES	18(a)	(2,696,627)	(2,244,593)	(1,493,576)	(405,137)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		34,712	408,423	23,500	408,423
Purchase of property, plant and equipment		(1,433,986)	(55,221)	-	-
Loan to related parties		(450)	-	(9,154,437)	(1,887,237)
Purchase of controlled entity	18(e)	-	(115,239)	-	(207,817)
Proceeds from sale of financial assets		39,587	99,259	39,587	99,259
Payment for tenement acquisition		(1,712,698)	-	-	-
Payments for financial assets		(30,000)	(4,125)	-	(4,128)
CASH FLOWS FROM/ (USED IN) INVESTING ACTIVITIES		(3,102,835)	333,097	(9,091,350)	(1,591,500)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		10,240,295	2,000,017	10,240,295	2,000,017
Proceeds from Convertible Notes		650,000	2,225,000	650,000	2,225,000
Payments for capital raising		(928,603)	(148,132)	(928,603)	(145,130)
Repayment of borrowings – other		(12,201)	(22,097)	-	(740)
CASH FLOWS FROM FINANCING ACTIVITIES		9,949,491	4,054,788	9,961,692	4,079,147
NET INCREASE/(DECREASE) IN CASH HELD					
Add opening cash brought forward		3,403,260	1,259,968	3,342,478	1,259,968
CLOSING CASH CARRIED FORWARD	18(b)	7,553,289	3,403,260	2,719,244	3,342,478

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 except for the accounting policies with respect to employee benefits and capitalisation of exploration expenditure.

(i) Employee Benefits

The Consolidated Entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of the revised policy has not materially affected retained profits or employee benefit liabilities at the beginning of the year therefore an adjustment to these amounts have not been undertaken.

(ii) Exploration Expenditure

The Consolidated Entity has adopted a new accounting policy of expensing all exploration and evaluation expenditure other than acquisition costs prior to the commencement of mining each area. The directors are of the opinion that the change in policy will result in an overall improvement in the relevance of the financial information. The previous policy was to capitalise costs associated with all exploration and evaluation activities that at balance date, had not reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. The cumulative financial effect of the change in policy up to the beginning of the current financial year is \$8,082,833, which has been recognised as an expense in the statement of financial performance for 2003. In addition, the current year loss has increased by \$2,509,162 as result of expensing all exploration and initial development costs incurred during the 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 balance 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.

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.

(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.

(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.

(h) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for on a first-in-first-out basis.

(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.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount. Where it is expected that a liability for capital gains tax will arise, this expected amount is disclosed by way of note.

Depreciation

Depreciation is provided on all property, plant and equipment, other than freehold land.

Major depreciation periods are:	2003	2002
Plant and equipment;		
- plant and equipment	2 - 5 years	2 - 5 years
- plant and equipment under lease	4 - 5 years	4 - 5 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.

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

Costs carried forward

Costs arising from exploration and evaluation activities are written off as incurred, except 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 will be 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 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) 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.

(n) 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.

(o) Interest-bearing liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

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

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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. 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 charged against profits on a net basis in their respective categories.

The value of the employee share incentive scheme described in note 20 is not being charged 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 charged against profits when due.

(u) 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.

(v) Comparatives

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

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
2. REVENUES FROM ORDINARY ACTIVITIES					
Revenues from operating activities					
Revenue from sale of goods		652,240	1,266,744	-	466,786
Total revenues from operating activities		652,240	1,266,744	-	466,786
Revenues from non-operating activities					
Rent		9,084	1,700	4,541	1,700
Interest – other persons/ corporations		292,970	60,387	290,414	59,502
Proceeds from disposal of property, plant and equipment		34,712	408,423	23,500	408,423
Proceeds from sale of listed investments		39,587	100,290	39,587	100,290
Export marketing grant		41,043	-	41,043	-
Other revenue		-	7,677	-	531
Total revenues from non-operating activities		417,396	578,477	399,085	570,446
3. EXPENSES AND LOSSES					
a) Expenses					
<i>Depreciation of non-current assets</i>					
Plant and equipment		25,684	21,763	-	6,811
Plant and equipment under lease		11,300	8,996	-	1,755
		36,984	30,759	-	8,566
<i>Borrowing costs expensed</i>					
Interest expense					
- finance lease		3,726	3,277	-	1,185
- loan		1,217,955	1,957	1,217,483	-
Total borrowing costs		1,221,681	5,234	1,217,483	1,185
Less: Borrowing costs capitalised		-	(979)	-	-
Total borrowing costs expensed		1,221,681	4,255	1,217,483	1,185
Doubtful debts		-	-	118,119	29,649
Cumulative effect of exploration costs expensed due to change in accounting policy		8,082,833	-	-	-
Exploration, evaluation and development costs		2,509,162	-	-	-
Total exploration, evaluation and development costs		10,591,995	-	43,856	-
Decrement in value of investments		-	33,700	10,833,126	179,645
Operating lease rental		150,614	72,829	-	30,003
b) Losses/ (gains)					
Net loss/(gain) on disposal of financial assets		12,664	(15,334)	12,664	(15,334)
Net loss/(gain) on disposal of property, plant and equipment		(11,754)	(90,869)	(4,000)	(90,869)

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
4. INCOME TAX					
The prima facie tax on profit differs from the income tax provided in the financial statements as follows:					
Prima facie tax on loss from ordinary activities		(3,705,193)	(120,090)	(3,705,193)	(120,090)
Tax effect of permanent differences					
Write down of investment		-	-	3,249,938	-
Non-deductible legal expenses		-	490	-	445
Future income tax benefit not brought to account		3,705,193	119,600	455,255	119,645
Income tax expense attributable to ordinary activities		-	-	-	-
Income tax losses					
Future income tax benefit arising from income tax losses not brought to account at reporting date as realisation of the benefit is not regarded as virtually certain		22,670,035	10,319,392	1,720,896	203,380

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.

No adjustments have yet been made to reflect the Company's possible intention to form a consolidated tax group.

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
5. SIGNIFICANT ITEMS					
Exploration Expenditure written-off	(a)	10,591,995	-	43,856	-
Write down of investment	(b)	-	33,700	10,833,126	179,645

a) Previously capitalised exploration expenditure written-off in accordance with new accounting policy.

b) Investment in Mount Gibson Mining Ltd was written down to its recoverable amount of \$6.77M (after write-off of exploration expenditure) in June 2003 (refer Note 8).

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
6. RECEIVABLES					
CURRENT					
Trade debtors	(b)	4,264	303,768	200	584
Sundry debtors	(b)	82	767,318	-	767,250
Other receivables	(a)	159,581	-	161,628	-
Less: provision for doubtful debts		-	-	(147,768)	-
		<u>163,927</u>	<u>1,071,086</u>	<u>14,060</u>	<u>767,834</u>
NON-CURRENT					
Other receivables	(a)	-	159,131	14,417,173	2,299,365
Less: provision for doubtful debts		-	-	-	(29,649)
		<u>-</u>	<u>159,131</u>	<u>14,417,173</u>	<u>2,269,716</u>
a) Related party receivables					
CURRENT					
Controlled entities		-	-	13,860	-
Associated companies	(b)	159,581	95,666	-	94,334
		<u>159,581</u>	<u>95,666</u>	<u>13,860</u>	<u>94,334</u>
NON-CURRENT					
Controlled entities		-	-	14,417,173	2,269,716
Associated companies		-	159,131	-	-
		<u>-</u>	<u>159,131</u>	<u>14,417,173</u>	<u>2,269,716</u>
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.					
	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
7. INVENTORY					
Timber inventory		-	232,817	-	-
		<u>-</u>	<u>232,817</u>	<u>-</u>	<u>-</u>
8. OTHER FINANCIAL ASSETS					
CURRENT					
Listed shares	(a)	-	102,177	-	102,177
Provision for diminution		-	(49,927)	-	(49,927)
		<u>-</u>	<u>52,250</u>	<u>-</u>	<u>52,250</u>
NON-CURRENT					
<i>Investments at cost comprise:</i>					
Controlled entities		-	-	17,604,779	17,482,555
Associated entity	(b),(c)	7,223,858	7,223,858	-	-
Less: provision for diminution	5	-	-	(10,833,126)	-
		<u>7,223,858</u>	<u>7,223,858</u>	<u>6,771,653</u>	<u>17,482,555</u>



Mount Gibson Iron

NOTES TO THE FINANCIAL STATEMENTS

8. OTHER FINANCIAL ASSETS (CONTINUED)

- a) Listed shares are readily saleable with no fixed terms. The carrying value is market value at balance date.
- b) The associated entity, Asia Iron Pty Limited is carried at deemed cost. Capital gains tax would be payable if this asset was sold at reporting date. It is not held for re-sale.
- c) Asia Iron Pty Ltd is not accounted for using the equity accounting method as Asia Iron's only activity is holding the tenements over the Mt Gibson iron deposits, the results are immaterial.

9. INTEREST IN SUBSIDIARIES

Name	Country of Incorporation	Percentage of equity interest held by the Consolidated Entity		Investment	
		2003	2002	2003	2002
		%	%	\$	\$
Mount Gibson Mining Limited	Australia	100	100	6,771,650	17,482,552
Whittakers Timber Pty Ltd	Australia	100	100	1	1
Geraldton Bulk Handling Pty Ltd	Australia	100	100	2	2
				<u>6,771,653</u>	<u>17,482,555</u>

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
10. OTHER ASSETS					
CURRENT					
Rehabilitation bonds		30,000	-	-	-
Deposits paid		13,250	-	3,250	-
Prepayments		1,174	46,818	-	33,642
		<u>44,424</u>	<u>46,818</u>	<u>3,250</u>	<u>33,642</u>
NON-CURRENT					
Expenditure carried forward		83,761	5,352	83,761	2,350

11. PROPERTY, PLANT AND EQUIPMENT

<i>Freehold land at cost</i>		805,400	5,400	5,400	5,400
<i>Plant and equipment</i>					
At cost		159,280	189,491	-	-
Accumulated depreciation		(48,836)	(58,095)	-	-
		<u>110,444</u>	<u>131,396</u>	<u>-</u>	<u>-</u>
<i>Plant and equipment under lease</i>					
At cost		63,166	63,166	-	-
Accumulated depreciation		(21,255)	(9,955)	-	-
		<u>41,911</u>	<u>53,211</u>	<u>-</u>	<u>-</u>
<i>Geraldton iron ore storage facility at cost</i>		607,148	-	-	-
<i>Total property, plant and equipment</i>					
At cost		1,634,994	258,057	5,400	5,400
Accumulated depreciation		(70,091)	(68,050)	-	-
		<u>1,564,903</u>	<u>190,007</u>	<u>5,400</u>	<u>5,400</u>

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

a) Assets pledged as security

- i) Included in the balance of plant and equipment is a vehicle which has been pledged as security for the loan used for its purchase (refer Note 14).
- ii) Assets under lease are pledged as security for the associated lease liabilities.

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
The value of assets pledged as security are:					
Plant and equipment		41,416	48,414	-	-
Plant and equipment under lease		41,911	53,211	-	-

b) Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year.

Plant and equipment

Carrying amount at beginning	131,396	-	-	38,298
Additions and transfers	27,690	153,159	-	-
Disposals	(22,958)	-	-	(31,487)
Depreciation expense	(25,684)	(21,763)	-	(6,811)
	110,444	131,396	-	-

Plant and equipment under lease

Carrying amount at beginning	53,211	-	-	26,844
Additions	-	62,207	-	-
Disposals	-	-	-	(25,089)
Depreciation expense	(11,300)	(8,996)	-	(1,755)
	41,911	53,211	-	-

12. ACQUISITION, EXPLORATION AND DEVELOPMENT COSTS

Acquisition, exploration and development costs carried forward in respect of mining areas of interest

Tallering Peak Hematite	4,837,968	731,644	-	-
Mt Gibson Hematite	3,995,165	5,287,100	-	-
Mt Gibson Magnetite	-	6,337,030	-	-
	8,833,133	12,355,774	-	-

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.

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
13. PAYABLES					
CURRENT					
Trade creditors	(a),(b)	388,438	779,031	57,381	81,088
Other creditors	(b),(c)	279,116	3,098,599	131,725	3,106,727
		<u>667,554</u>	<u>3,877,630</u>	<u>189,106</u>	<u>3,187,815</u>
NON-CURRENT					
Other creditors	(d)	885,000	-	-	-
		<u>885,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
a) Australian dollar equivalents					
Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:					
United States dollars		-	11,484	-	-

b) **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.

c) **Funds held pending completion**

As at 30 June 2002, included in other creditors at balance date are funds held, or receivable by the Company, for Convertible Notes to be issued. The issue of the Convertible Notes was subject to the completion of the contract to purchase the Talling Peak iron ore deposit. This contract was settled on 1 August 2002 and the Convertible Notes issued on 6 August 2002.

d) **Non-current payable**

Interest free and payable over 10 years under contract for the purchase of land required for the Talling Peak Hematite Project at Mullewa.

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
14. INTEREST-BEARING LIABILITIES					
CURRENT					
Lease liability	(a),(b)	9,610	8,544	-	-
Borrowings secured by mortgage	(b)	4,817	4,404	-	-
		<u>14,427</u>	<u>12,948</u>	<u>-</u>	<u>-</u>
NON-CURRENT					
Lease liability	(a),(b)	34,694	43,558	-	-
Borrowings secured by mortgage	(b)	28,171	32,988	-	-
Convertible notes	(c)	2,875,000	-	2,875,000	-
		<u>2,937,865</u>	<u>76,546</u>	<u>2,875,000</u>	<u>-</u>

a) Secured lease liability - finance lease

b) Terms and condition relating to the above financial instruments;

i) Finance leases refer Note 19 (b).

ii) Borrowings are repayable monthly with final instalments due in February 2007. Interest is charged at an average rate of 7.2%. The loan is secured by first mortgage over the vehicle to which it relates.

c) 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.

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
15. PROVISIONS		\$	\$	\$	\$
Employee entitlements	20	12,014	4,819	-	-
		<u>12,014</u>	<u>4,819</u>	<u>-</u>	<u>-</u>

16. CONTRIBUTED EQUITY

a) Issued and paid up capital

Ordinary Shares fully paid		33,761,186	21,228,518	33,761,186	21,228,518
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	2003		2002	
	Number of Shares	\$	Number of Shares	\$
b) Movements in shares on issue				
Beginning of the financial year	118,280,904	21,228,518	1,545,771,317	2,057,944
Share consolidation	-	-	(1,524,302,256)	-
Issued during the year				
- public equity raising	126,281,008	11,365,291	5,000,000	1,000,000
- purchase of Mount Gibson	-	-	86,978,440	17,420,688
- purchase of Tallering Peak	8,000,000	2,000,000	-	-
- equity placement	-	-	4,000,000	1,000,000
- exercise of Options	16	4	70	17
- technology fee	-	-	833,333	-
Less capital raising costs	-	(832,627)	-	(250,131)
End of the financial year	<u>252,561,928</u>	<u>33,761,186</u>	<u>118,280,904</u>	<u>21,228,518</u>

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	2003 Number	2002 Number
25 cents	On or before 31 December 2003 (i)	55,182,379	29,884,950
15.84 cents	On or before 28 February 2006	2,083,332	2,083,332
Total		<u>57,265,711</u>	<u>31,968,282</u>

i) During the year 25,297,429 options were issued, exercisable at 25 cents per share on or before 31 December 2003. The options were issued as part of the Employee Share Scheme and raising of capital.

Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
17. RESERVES AND RETAINED LOSSES				
Accumulated losses	(12,810,751)	(460,108)	(12,810,751)	(460,108)
Balance at the beginning of the year	(460,108)	(59,808)	(460,108)	(59,808)
Net loss attributable to members of Mount Gibson Iron Limited	(12,350,643)	(400,300)	(12,350,643)	(400,300)
Dividends provided for or paid	-	-	-	-
Balance at end of year	(12,810,751)	(460,108)	(12,810,751)	(460,108)
18. STATEMENT OF CASH FLOWS				
a) Reconciliation of the net loss after tax to the net cash flows from operations				
Net loss	(12,350,643)	(400,300)	(12,350,643)	(400,300)
Non-cash items				
Depreciation of non-current assets	36,984	30,759	-	8,566
Decrement in net market value of financial assets	4,300	33,700	4,300	179,645
Net loss on disposal of financial assets	8,364	(15,334)	8,364	(15,334)
Net profit on sale of property, plant and equipment	(11,754)	(90,869)	(4,000)	(90,869)
Doubtful debts expense	-	-	118,119	29,649
Capital raising expense	127,226	-	127,226	-
Borrowing costs capitalised	-	(979)	-	-
Write down of investments	-	-	10,833,126	-
Capitalised expenses written off	10,591,995	-	-	-
Net assets transferred to subsidiary	-	-	-	(412,127)
Changes in assets and liabilities				
(Increase)/ decrease in trade and other receivables	260,490	(182,265)	(58,115)	105,550
(Increase)/ decrease in inventory	232,817	(72,020)	-	160,797
(Increase) in prepayments/deposits	32,394	(28,288)	30,392	(15,112)
(Increase) in plant and equipment due to acquisition	-	(27,155)	-	-
(Increase)/ decrease in capitalised project and acquisition expenditure	(2,310,919)	(1,697,741)	(81,411)	(2,350)
Increase/(decrease) in creditors and accruals	670,862	234,050	(7,865)	21,381
Increase/(decrease) in GST paid	4,062	(29,293)	9,155	29,044
Increase/(decrease) in employee entitlements	7,195	1,142	-	(3,677)
Net cash flow from operating activities	(2,696,627)	(2,244,593)	(1,371,352)	(405,137)

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
18. STATEMENT OF CASH FLOWS (CONTINUED)					
b) Reconciliation of cash					
Cash balance comprises:					
- cash on hand		200	450	-	-
- cash at bank		3,243,841	3,402,810	2,719,244	3,342,478
		<u>3,244,041</u>	<u>3,403,260</u>	<u>2,719,244</u>	<u>3,342,478</u>
- fixed deposits		4,309,248	-	-	-
		<u>7,553,289</u>	<u>3,403,260</u>	<u>2,719,244</u>	<u>3,342,478</u>
c) Financing facilities available					
At balance date the following financing facility had been negotiated:					
- bank loan – total facility		32,988	37,392	-	-
- bank loan – facility utilised		32,988	37,392	-	-
- bank loan – unused facility		-	-	-	-

d) Non-cash financing activities

Convertible Notes of \$2,125,000 and Shares of \$1,000,000 were issued as part payment for the acquisition of the Tallering Peak iron ore deposits.

e) Acquisition/disposal of controlled entity

There were no acquisitions or disposals during the financial year ended 30 June 2003.

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
19. EXPENDITURE COMMITMENTS					
a) Exploration expenditure commitments					
Minimum obligations not provided for in the financial report and are payable:					
- Not later than one year	(c)	573,200	220,655	-	-
- Later than one year but not later than five years		2,292,800	882,620	-	-
		<u>2,866,000</u>	<u>1,103,275</u>	<u>-</u>	<u>-</u>
b) Lease expenditure commitments					
<i>Operating leases (non-cancellable)</i>					
(d)					
Minimum lease payments					
- Not later than one year		98,320	97,900	-	97,900
- Later than one year but not later than five years		289,945	432,358	-	432,358
		<u>388,265</u>	<u>530,258</u>	<u>-</u>	<u>530,258</u>
<i>Finance leases</i>					
Minimum lease payments					
- Not later than one year		20,245	12,655	-	-
- Later than one year but not later than five years		71,308	50,550	-	-
Total minimum lease payments		<u>91,553</u>	<u>63,205</u>	<u>-</u>	<u>-</u>
Future finance charges		(14,261)	(11,103)	-	-
		<u>77,292</u>	<u>52,102</u>	<u>-</u>	<u>-</u>

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
19. EXPENDITURE COMMITMENTS (CONTINUED)					
Total lease liability accrued for:					
<i>Current</i>					
Finance leases		14,427	8,544	-	-
<i>Non-current</i>					
Finance leases		62,865	43,558	-	-
		<u>77,292</u>	<u>52,102</u>	<u>-</u>	<u>-</u>

- c) In order to maintain current rights to explore and mine the Mt Gibson tenements the Consolidated Entity, on behalf of Asia Iron Pty Limited, is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Mineral and Petroleum Resources.
- d) Terms and condition relating to the above financial instruments
- i) 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 7.85%. Secured lease liabilities are secured by a charge over the leased assets.
- ii) The operating lease is for office space, the initial lease term is 5 years and has an implicit interest rate of 4%.

	Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
		2003	2002	2003	2002
		\$	\$	\$	\$
20. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS					
a) Employee entitlements					
The aggregate employee entitlement liability is comprised of:					
Accrued wages, salaries and on costs		21,833	21,602	2,858	4,925
Provisions (current)		12,014	4,819	-	-
		<u>33,847</u>	<u>26,421</u>	<u>2,858</u>	<u>4,925</u>

b) Employee Share Scheme

An employee share scheme has been established where Directors, Executives and certain staff are issued with Options over the ordinary Shares of the Company. The Options are issued for nil consideration, at the discretion of the Directors, in accordance with the guidelines of the scheme. There are currently 4 Directors and 2 Executives eligible for this scheme. On 14 August 2002 6,314,041 (2002: nil) Options were granted under the Employee Share Scheme. There is no effective vesting date. The Options are exercisable at 25 cents, on or before 31 December 2003.

There were no Options issued under the Employee Share Scheme prior to the beginning of this financial year, and no options exercised or forfeited during the year.

21. SUBSEQUENT EVENTS

On 7 July 2003 Mount Gibson Mining Limited acquired an additional 825,000 shares in Asia Iron Pty Ltd, the Company which holds the tenements at Mt Gibson. The cost of acquisition was \$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 Ltd as at 7 July 2003.



NOTES TO THE FINANCIAL STATEMENTS

Mount Gibson Iron

21. SUBSEQUENT EVENTS (CONTINUED)

On 25 August 2003 Mount Gibson Iron Limited signed a Share Subscription Agreement whereby Sinom (Hong Kong) Limited will subscribe for 18.8 million shares at 17 cents each on 15 October 2003 to raise \$3.196 million. The funds will be utilised for the development of the Company's second mine at Mt Gibson.

On 30 September 2003 Mount Gibson Mining Limited formalised an unsecured US\$6.0 million finance facility, provided by one of the Company's shareholders, Stemcor (S.E.A.) Pte Ltd. The facility will allow the Company to undertake mining operations at the Talling Peak Hematite Project in its own right and meet associated infrastructure and pre-stripping costs, rather than utilising contractors.

22. EARNINGS PER SHARE

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

	CONSOLIDATED	
	2003	2002
	\$	\$
Losses used in calculating basic and diluted earnings per share	(12,350,643)	(400,300)
	Number of Shares	Number of Shares
Weighted average number of ordinary Shares used in calculating basic and diluted earnings per share:	168,156,428	68,007,473

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.

23. REMUNERATION OF DIRECTORS

Income paid or payable, or otherwise made available, in respect of the financial year, to all Directors of each entity in the Consolidated Entity, directly or indirectly, by the entities of which they are Directors or any related party:

Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
	464,087	285,233		

Income paid or payable, or otherwise made available, in respect of the financial year, to all the Directors of Mount Gibson Iron Limited, directly or indirectly, from the entity or any related party:

464,087	285,233
Number	Number

The number of Directors of Mount Gibson Iron Limited whose income (including superannuation contributions) falls within the following bands is:

\$10,000 - \$19,999	-	2
\$20,000 - \$29,999	-	1
\$30,000 - \$39,999	2	1
\$50,000 - \$59,999	-	1
\$140,000 - \$149,999	-	1
\$100,000 - \$109,999	1	-
\$280,000 - \$289,999	1	-



NOTES TO THE FINANCIAL STATEMENTS

Mount Gibson Iron

Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
24. REMUNERATION OF EXECUTIVES				
Remuneration received or due and receivable by Executive Officers of the Consolidated Entity whose remuneration is \$100,000 or more, from entities in the Consolidated Entity or a related party, in connection with the management of the affairs of the entities in the Consolidated Entity whether as an Executive Officer or otherwise:				
		451,690	146,500	
Remuneration received or due and receivable by Executive Officers of the Company whose remuneration is \$100,000 or more, from the Company or any related entity, in connection with the management of the affairs of the Company or any of its subsidiaries, whether as an Executive Officer or otherwise:			120,000	146,500
	Number	Number	Number	Number
The number of Executive Officers of the Consolidated Entity and the Company whose remuneration falls within the following bands:				
\$100,000 - \$109,999	2	-	-	-
\$120,000 - \$129,999	2	-	1	-
\$130,000 - \$139,999	-	-	-	-
\$140,000 - \$149,999	-	1	-	1
Notes	CONSOLIDATED		MOUNT GIBSON IRON LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
25. AUDITORS 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	17,000	17,000	17,000	14,000
Other services in relation to the entity and any other entity in the Consolidated Entity	24,860	23,957	860	23,957
Other services provided by a related practice of Ernst & Young to the Consolidated Entity	-	5,000	-	5,000
	41,860	45,957	17,860	42,957



NOTES TO THE FINANCIAL STATEMENTS

Mount Gibson Iron

26. RELATED PARTY DISCLOSURES

Directors

The Directors of Mount Gibson Iron Limited during the financial year were:

WB Willis	BG Johnson
CL Readhead	IA Macliver

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

Grange Consulting Group Pty Limited, of which Mr IA Macliver is a Director and Shareholder, provided corporate advisory, secretarial and accounting services to the Company and Consolidated Entity. Grange Consulting Group Pty Limited also provided the registered office premises for the Company until 21 December 2001. The fees paid for these services, under normal commercial terms and conditions, were nil (2002: \$37,757) and nil (2002: \$50,033) respectively.

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 \$24,412 (2002: \$1,483) and \$27,671 (2002: \$4,946) respectively.

Equity instruments of Directors

Interests at balance date

Interests in equity instruments of Mount Gibson Iron Limited held by Directors of the reporting entity and their Director-related entities:

	Ordinary Shares		Options	
	2003 Number	2002 Number	2003 Number	2002 Number
WB Willis	420,000	150,000	5,327,783	3,445,000
BG Johnson	-	-	-	-
CL Readhead	177,500	177,500	2,015,695	1,530,000
IA Macliver	1,081,666	540,833	2,065,348	1,579,653
	<u>1,679,166</u>	<u>868,333</u>	<u>9,408,826</u>	<u>6,554,653</u>

Movements in Directors' equity holdings

On 14 August 2002 the Directors or their nominees were issued Options under the Employee Share Scheme refer Note 20(b).

During the year, Mr WB Willis and Mr IA Macliver acquired 270,000 shares and 540,833 shares respectively. These dealings with Directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.



Mount Gibson Iron

NOTES TO THE FINANCIAL STATEMENTS

27. DISCONTINUING OPERATIONS

After being unable to sell the retail timber business (Whittakers Timber Pty Ltd), it ceased operations in November 2002. All inventory and plant & equipment were sold during the year.

The carrying amounts of total assets to be disposed of and total liabilities to be settled as at 30 June 2003 is as follows:

	CONSOLIDATED	
	2003	2002
	\$	\$
Total Assets	15,762	-
Total Liabilities	(1,902)	-
Net Assets	13,860	-

28. CONTINGENT LIABILITY

There are no contingent liabilities as at the reporting date.

29. 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.



NOTES TO THE FINANCIAL STATEMENTS

29. SEGMENT INFORMATION (CONTINUED)

Business Segments	Mining		Timber		Other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues								
Sales to customers outside the Consolidated Entity	-	-	652,240	1,266,744	-	-	652,240	1,266,744
Other revenues from customers outside the Consolidated Entity	7,089	-	-	-	370,720	578,477	377,809	578,477
Total segment revenue	7,089	-	652,240	1,266,744	370,720	578,477	1,030,049	1,845,221
Results								
Segment result	(10,833,126)	-	(118,100)	(76,991)	(1,399,417)	(12,717)	(12,350,643)	(89,708)
Unallocated expenses							-	(310,592)
Net profit							(12,350,643)	(400,300)
Assets								
Segment assets								
Eliminations	13,358,443	16,040,129	15,762	623,329	20,019,378	24,131,819	33,393,583	40,795,277
Total assets							(7,926,288)	(16,054,923)
Liabilities								
Segment liabilities	10,581,957	2,430,518	163,530	652,976	3,064,106	3,187,815	13,809,593	6,271,309
Eliminations							(9,292,733)	(2,299,366)
Total liabilities							4,516,860	3,971,943
Other segment information								
Acquisition of property, plant and equipment; intangible assets and other non-current assets	827,690	16,003,840	-	-	607,148	-	1,434,838	16,003,840
Depreciation	28,366	13,606	7,764	17,153	-	-	36,130	30,759

30. 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:

	Floating interest rate		Fixed interest rate maturing in:				Non-interest bearing		Total carrying amount per statement of financial position		Weighted average effective interest rate		
	2003	2002	1 year or less	Over 1 to 5 years		2003	2002	2003	2002	2003	2002	%	%
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
i) Financial assets													
Cash	3,243,841	3,402,810	-	-	-	200	450	3,244,041	3,403,260	4.73	4.46		
Fixed Deposit	4,309,248	-	-	-	-	-	-	4,309,248	-	4.82	N/A		
Trade and other receivables	-	-	-	-	-	163,927	1,071,086	163,927	1,071,086	N/A	N/A		
Listed shares	-	-	-	-	-	-	52,250	-	52,250	N/A	N/A		
Non-current receivables	-	-	-	-	-	-	159,131	-	159,131	N/A	N/A		
Unlisted shares	-	-	-	-	-	7,223,858	7,223,858	7,223,858	7,223,858	N/A	N/A		
Rehab Bonds	-	-	-	-	-	30,000	-	30,000	-	N/A	N/A		
Total financial assets	7,553,089	3,402,810	-	-	-	7,417,985	8,506,775	14,971,074	11,909,585				
ii) Financial liabilities													
Trade and other creditors	-	-	-	-	-	667,554	877,630	667,554	877,630	N/A	N/A		
Finance lease liability	-	-	14,427	8,544	62,865	-	-	77,292	52,102	8.1	7.85		
Borrowings	-	-	-	4,404	-	-	-	-	37,392	N/A	7.20		
Other creditors	-	-	-	3,000,000	-	885,000	-	885,000	-	N/A	N/A		
Convertible Notes (to be issued)	-	-	-	-	2,875,000	-	-	2,875,000	3,000,000	10.0	10.0		
Total financial liabilities	-	-	14,427	3,012,948	2,937,865	1,552,554	877,630	4,504,846	3,967,124				

b) Net fair values

All 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, is the carrying amount of those assets as indicated in the balance sheet.

Concentration of credit risk

The is no concentration of credit risk.



DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- a. the financial statements and notes of the 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 2003 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

A handwritten signature in black ink, appearing to be "WB Willis".

WB Willis
Chairman

Perth, 30 September 2003



INDEPENDENT AUDIT REPORT



■ **Central Park**
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Australia

■ Tel 61 8 9429 2222
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Perth WA 6843

Independent audit report to members of Mt Gibson Iron Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, 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 2003. 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.

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 2003 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 2003



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 23 September 2003.

(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	72	23,822
1,001	-	5,000	199	703,923
5,001	-	10,000	287	2,468,619
10,001	-	100,000	1,248	53,718,115
100,001	and over		306	195,647,553
			<hr/>	<hr/>
			2,112	252,562,032
			<hr/>	<hr/>
The number of Shareholders holding less than a marketable parcel of Shares are:			175	284,885
			<hr/>	<hr/>

(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	10.60
Resource Equities Limited	16,604,124	6.57
Link Traders (Aust) Pty Limited	14,743,880	5.84
Nefco Nominees Pty Ltd	11,340,750	4.49
National Nominees Limited	8,994,539	3.56
Dominant Holdings AG	6,000,000	2.38
Kingstream Steel Limited (Subject to Deed of Company Arrangement)	4,450,373	1.76
Desmond George Samuel Anderson	2,800,000	1.11
Commonwealth Custodial Services Limited	2,674,157	1.06
Drill Investments Pty Limited	2,500,000	0.99
Aileendonan Investments Pty Limited	2,291,682	0.91
Mr William Gordon Martin & Mrs Beverley Michelle Martin <Chemco Super Fund A/C>	2,200,000	0.87
Giovanni Nominees Pty Ltd <Giovanni Family A/C>	2,000,000	0.79
Ginga Pty Ltd	1,898,876	0.75
Osson Pty Ltd	1,830,937	0.72
Queensland Investment Corporation	1,574,500	0.62
Lytton Nominees Pty Ltd <The Lytton Super Fund>	1,240,799	0.49
Alnbie Pty Ltd	1,200,000	0.48
Drill Investments Pty Ltd <The Drill Family Acc>	1,200,000	0.48
Energy World Corporation Limited	1,192,000	0.47
		<hr/>
		113,512,337
		<hr/>
		44.94
		<hr/>



ASX ADDITIONAL INFORMATION

b) Twenty largest Optionholders

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

	Listed Ordinary Shares	
	Number of Shares	Percentage of Ordinary Shares
Mr Peter Andrew Pennisi	4,605,934	9.27
Jaronach Pty Ltd	2,500,000	5.03
Link Traders (Aust) Pty Limited	2,250,000	4.53
Mr John Michael Moore	2,023,481	4.07
Ms Rhonda Marlene Willis	1,942,783	3.91
Chemco Pty Ltd	1,663,935	3.35
SDG Nominees Pty Ltd	1,522,500	3.06
Kelfield Investments Pty Ltd	1,500,000	3.02
Mr Charles Pierson	1,100,000	2.21
Mr Denis Fraser	1,000,000	2.01
Giovanni Nominees Pty Ltd <Giovanni Family A/C>	1,000,000	2.01
KPM Field Pty Ltd	1,000,000	2.01
Ginga Pty Ltd	949,438	1.91
Mr Paul Raymond Frost	925,000	1.86
Lewer Corporation Pty Ltd	857,158	1.73
Commonwealth Custodial Services Limited	712,078	1.43
Mr Kenneth John Weston	679,474	1.37
Cornela Pty Ltd <Macliver Family A/C>	589,862	1.19
Mr Jason Beddow	570,900	1.15
Alltrail Pty Ltd	550,000	1.11
	27,942,543	56.24

(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 <Chemco Super Fund A/C>	28,975,720
Resource Equities Limited	16,604,124
Link Traders (Aust) Pty Ltd	14,743,880

(d) Voting rights

All ordinary Shares carry one vote per Share without restriction.



ASX ADDITIONAL INFORMATION

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage Held
Mt Gibson	EL 59/1013	50
Mt Gibson	EL 59/1016	50
Mt Gibson	G 59/30	50
Mt Gibson	M 59/338	50
Mt Gibson	M 59/339	50
Mt Gibson	M 59/454	50
Mt Gibson	M 59/455	50
Mt Gibson	M 59/526	50
Mt Gibson	M 59/550	50
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	L 70/60	100
Tallering Peak	E 70/1192	100

(f) Net tangible assets backing

	CONSOLIDATED	
	2003	2002
	\$	\$
Net tangible assets per ordinary shares	0.083	0.143

(h) Associated Companies

Name	% Equity Held	Investment \$
Asia Iron Pty Ltd	50%	7,223,858



CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Mount Gibson Iron Limited is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs of Mount Gibson Iron Limited on behalf of the Shareholders by whom they are elected and to whom they are accountable.

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board shall comprise at least four Directors;
- the Board should comprise Directors with an appropriate range of qualifications and expertise; and
- the Board shall meet at least bi-monthly and follow meeting guidelines set down to ensure all Directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The Directors in office at the date of this statement are

Name	Position	Name	Position
William Willis	Chairman	Ian Macliver	Non-Executive Director
Brian Johnson	Managing Director	Craig Readhead	Non-Executive Director

Audit Committee

The Board has established an audit committee, which operates as approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Consolidated Entity to the audit committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive or part-time executive Directors.

The members of the audit committee during the year were:

- Bill Willis
- Ian Macliver
- Craig Readhead

The audit committee is also responsible for:

- directing and monitoring the internal audit function; and
- nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year statutory audit or review.

Board Responsibilities

As the Board acts on behalf of and is accountable to the Shareholders, the Board seeks to identify the expectations of the Shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Consolidated Entity is delegated by the Board to the Managing Director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the Executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the committee referred to above, these mechanisms include the following:

- Board approval of a strategic plan, which encompasses the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- the strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- implementation of operating plans and budgets by management and Board monitoring of progress against budget.

Monitoring of the Board's Performance and Communication to Shareholders

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the chairperson.

The Board of Directors aims to ensure that the Shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the Shareholders through:

- the annual report which is distributed to all Shareholders; and
- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate.

