MOUNT GIBSON IRON LIMITED 2017 ANNUAL REPORT

Mount Gibson Iron

2017 Annual Report

Mount Gibson Iron

Mount Gibson Iron Limited is an established Australian producer and exporter of iron ore. The Company was incorporated in 1996 and was listed on the Australian Securities Exchange in 2002.

Headquartered in Perth, Mount Gibson owns the Extension Hill/Iron Hill mine in the Mount Gibson Range south east of Geraldton, and the high grade Koolan Island mine off the Kimberley coast in the remote north-west of the State.

The Company seeks to provide sustainable, long-term returns to shareholders by optimising its existing operations and growing long-term profitability through the discovery, development, participation in and acquisition of mineral resources.

Our MGX Values provide us with a behavioural guide on how to sustainably deliver shareholder value. It includes always putting the health and safety of our people first, working together with the communities in which we operate, and undertaking our activities in an environmentally responsible and sustainable manner.

MGX Values

COURAGE	INTEGRITY	SAFETY	AGILITY	RESPECT
Taking and giving feedback	Do what you say you will do	Genuine care for self and others	Make timely decisions	Be approachable and open to other points of view
Be prepared to admit being wrong	Do the right thing, even when no one is looking	Constant concern (hazard identification)	Be dynamic and embrace change	Treat others as you would expect to be treated
Challenge the norm constructively	"walk the talk"	Actively intervene to improve	Grab the opportunity	Encourage and develop people
Make the hard calls				

Contents

2016/17 Performance Summary

- Strong safety performance - 22% reduction in Total Recordable Injury Frequency Rate (the fifth consecutive year of significant improvement)
- Total ore sales revenue of $173 million on ore sales of 3.2 million tonnes
- Gross profit before tax from continuing operations of $36.5 million
- Net profit after tax of A$26.3 million
- Year-end cash, term deposits and liquid investments of $447 million
- All-in group cash costs* of $52/wmt FOB including net inventory build
- Fully franked final dividend of 2.0 cents per share
- Net assets of $419 million and no debt at 30 June 2017
- High-grade Koolan Island Mine Restart Project commenced with first ore sales targeted for early 2019
- Iron Hill mine commenced, first ore sales achieved in June 2017
- $64.3 million cash settlement received subsequent to year-end for business interruption component of insurance claim for failure of Main Pit seawall at Koolan Island

**All-in group cash costs are reported FOB and include all operating, capital, royalties and corporate costs excluding development capital related to the Koolan Island Restart Project.*

Chairman's Report

It is with great pleasure that I present to you Mount Gibson Iron's 2017 Annual Report.

It was pleasing to report a significant improvement in profitability by our core operating business to deliver a net profit after tax of $26.3 million in 2016/17, despite continued challenging market conditions and volatile iron ore prices. This compares with a net profit of $86.3 million in the prior year which largely reflected the $86 million Koolan Island insurance settlement for property damage in mid 2016.

Our strong financial result reflected the Company's continued diligent focus on cost reduction and financial discipline. This approach was fundamental to achieving a much improved gross profit before tax from continuing operations of $36.5 million.

Consequently, our cash and liquid investments rose strongly over the year to $447 million at the end of June, a very significant increase of $47 million compared with our cash position at the end of the prior financial year. This increase included the $34 million final payment of the property damage insurance settlement made in the prior year.

In light of the profitable performance of our core operating business in 2016/17, the Board was pleased to declare a fully franked final dividend of 2.0 cents per share for the year. On payment of this $21.9 million distribution, Mount Gibson will have distributed approximately $196 million in fully franked cash dividends since late 2011, whilst retaining substantial capital for reinvestment in our existing business and new resources opportunities.

Pleasingly, our financial position was further boosted in subsequent to the end of the year in July, when the Company received $64.3 million to settle the business interruption component of the Koolan Island seawall insurance claim.

Significantly, the Company also achieved two critical milestones during the year which have provided operational certainty for our business. The first was securing approval for, and then developing, the Iron Hill mine which extends production from our Mid West business until the end of 2018.

The second was the landmark decision to proceed with the restart of our high grade Koolan Island mine in the Kimberley after evaluation work confirmed a safe and robust means of reinstating the Main Pit seawall and demonstrated the Project's compelling financial metrics. When ore sales commence in early 2019, Mount Gibson will be the highest grade direct shipping iron ore producer in Australia and potentially the world.

The Company is now positioned extremely well to deliver on the Board's overarching strategic objective of creating long term value through investment in exploration, development, and efficient operational extraction of mineral resources.

Looking to the year ahead, the Board has determined the following key business objectives for the 2017/18 financial year:

- **Extension Hill/Iron Hill** – continue to mine the Iron Hill deposit while optimising production rates and controlling costs, to extend the life of the Mid West operation and prepare the site for its ultimate closure in the following year.
- **Koolan Island** – successfully rebuild the Main Pit seawall, dewater the pit and prepare the site for commencement of commercial production, with initial ore sales anticipated in early 2019.
- **Cost reductions** – continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** – maintain the increased yield on the Group's cash reserves.
- **Growth projects** – continuation of the search for business development opportunities in the resources sector.

By focusing on these priorities, we are confident that Mount Gibson can continue to navigate fluid market conditions and capitalise on our financial strength to deliver strong long term returns for our shareholders.

Our financial strength also enables us to look to the future with confidence, particularly as we ramp up Iron Hill, and most importantly, push on with our Koolan Island Mine Restart Project.

In summary, I would like to thank my fellow Directors and the employees of Mount Gibson for their tireless contributions and dedication over the year. I look forward to reporting an even more successful year in 2018.

Lee Seng Hui
Chairman

Chief Executive Officer's Report

Mount Gibson's performance in 2016/17, from a safety, operating and financial perspective, was very satisfying in the face of continued volatility in market conditions and the necessary transition from mining operations at Extension Hill to Iron Hill.

The safety of our people remains our absolute priority, so it is of credit to our workforce that Mount Gibson again reported overall improved safety performance, recording a further 22% decline in the Total Recordable Injury Frequency Rate (TRIFR) to 5.3, making it the fifth consecutive year of significant improvement. Furthermore, the Company's primary sites at Koolan Island, Extension Hill, and Geraldton Port all remained Lost Time Injury-free for a third consecutive year.

It was disappointing that in September 2016, the Company recorded its first LTI in almost three years when a contractor at the Company's closed Tallering Peak mine site suffered a shoulder injury while alighting from his vehicle. Consequently, Mount Gibson recorded a Lost Time Injury Frequency Rate (LTIFR) of 1.8. This was a reminder that safety can never be taken for granted, and underlined the importance of continually seeking to improve our safety performance.

Our financial and operating performance was also very satisfying in the conditions. As noted by the Chairman, the Company generated a much improved gross profit from continuing operations of $36.5 million, despite greatly reduced sales tonnages and revenue of 3.2 million tonnes and $173.1 million respectively. All-in group cash costs averaged $52 per wet metric tonne (wmt) in the year, including net inventory build costs incurred during the June quarter as production and sales transitioned to the new Iron Hill operation. This compared with average all-in cash costs of $48/wmt in the prior year.

The Extension Hill/Iron Hill operations generated strong cashflow of approximately $29 million over the year, despite the volatility of iron ore pricing and widening differential between the Platts 58% Fe and Platts 62% Fe pricing indices, reflecting the Company's ongoing focus on cost control and operational efficiency.

The development of Iron Hill represented a major milestone for the Company, extending the expected life of our Mid West business until the end of calendar 2018. As planned, mining was completed in the Extension Hill pit during November 2016, after which sales from run-of-mine ore stockpiles continued into the June half of 2017 as the Company readied to start mining at Iron Hill. Development of Iron Hill formally commenced following receipt of final regulatory approvals in February 2017, and first ore sales were achieved in June, contributing 0.1 Mwmt of high grade lump sales for the 2016-17 year.

It was also a pleasing achievement to complete our evaluation of the high grade Koolan Island Restart Project and approve development in April 2017 following confirmation of a safe cost–effective seawall design and compelling economics (refer ASX release dated 27 April 2017). Approximately $1.5 million was spent on completing this evaluation during the year, with a further $5 million spent on the project during the June 2017 quarter, related primarily to equipment purchases, labour and equipment mobilisation, and waste rock placement. Seawall embankment construction commenced in June, and the breach was closed in August.

As announced, the Project is a financially compelling high grade production opportunity, with first sales targeted in early 2019, at which point Mount Gibson will be Australia's highest grade supplier of hematite iron ore in a market increasingly favouring high grade products.

The Koolan Island project also extends the operating life of our existing assets well into the next decade, complementing our efforts to utilise our healthy balance sheet and substantial cash to grow and diversify our business through quality resources development opportunities outside of iron ore. Though it occurred just after the end of the financial year, it is worth noting our financial capacity in this regard was further boosted by the successful cash settlement of the business interruption component of the Koolan Island insurance claim for $64.3 million in July, taking total insurance proceeds received to over $150 million.

On the back of the year's performance, we enter the new financial year in excellent shape and confident of continuing to deliver value for shareholders from our existing business as we seek new long term opportunities. I believe this confidence is reflected in the Board's decision to return some of the value generated direct to shareholders by way of a fully franked final dividend of 2 cents per share.

I would like to take this opportunity to thank the Chairman and the Board for their ongoing support, guidance and counsel as we navigate these uncertain times. Their input is greatly valued and is certainly of assistance as we seek to achieve the best possible outcome for our shareholders.

Finally, I must thank all of Mount Gibson's hard working employees and contractors for their efforts and commitment. I am proud of what the team has achieved and look forward to building on our recent success in the year ahead.

Jim Beyer
Chief Executive Officer

Health and Safety

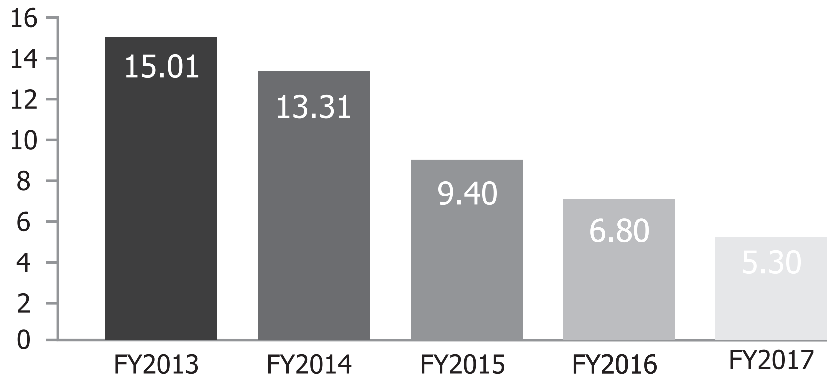
Mount Gibson's ongoing commitment to maintaining a safe work environment and taking responsibility for the safety of ourselves and our colleagues remains a primary focus, with the Company committed to achieving continuous improvement in every facet of its safety performance.

Mount Gibson recorded a significant reduction in its Total Recordable Injury Frequency Rate (TRIFR) for the fifth consecutive year, achieving a 22%% reduction to 5.3. Significantly, the Company's primary sites at Koolan Island, Extension Hill, and Geraldton Port all remained Lost Time Injury-free during the period.

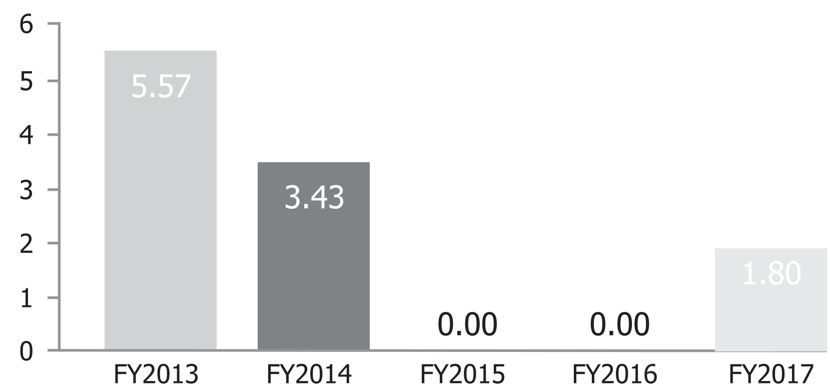
However, the Company was disappointed to record its first LTI in almost three years in September 2016, when a contractor at the Company's closed Tallering Peak mine site suffered a shoulder injury while alighting from his vehicle. Consequently, Mount Gibson recorded a Lost Time Injury Frequency Rate (LTIFR) of 1.8 for the year. Nonetheless, in the last five years, the Company has reduced both its TRIFR and LTIFR by approximately two thirds.

For details of the Company's safety performance, including statistics for each site, please refer to Mount Gibson Iron's 2017 Sustainability Report, published on the Mount Gibson website.

TRIFR



LTIFR



Operational Review

During 2016/17, Mount Gibson achieved total ore sales of 3.2 Mwmt, representing a 36% decrease from the previous year. This decline reflected the absence of production from the suspended Koolan Island mine and the transition of Mid West operations from the Extension Hill pit, where mining was completed in November 2016, to the new Iron Hill pit where mining commenced in the March quarter of 2017 followed by sales in June 2017. More details are contained in the Directors Report.

KOOLAN ISLAND

Koolan Island is located approximately 140km north of Derby, in the Kimberley region of Western Australia. The Koolan Island mine was placed on care and maintenance in the June 2016 quarter pending completion of the Company's evaluation of the potential to reinstate the Main Pit seawall and resume high grade ore production.

Evaluation and planning work was successfully completed in April 2017. A decision to proceed was announced on 27 April 2017, following confirmation of a safe and viable seawall design and construction method, re-establishment of Ore Reserves, attractive viable capital and operating cost estimates, and receipt of necessary regulatory approvals.

As reported, seawall reconstruction and pit dewatering costs are estimated at $97 million, including $10 million in contingencies, with estimated peak cash draw prior to cashflow of $145 million. Ore Reserves totalling 12.8Mt grading 66.0% Fe were re-established for Main Pit, giving an initial mine life of 3.5 years. A potential Stage Two pit extension is under evaluation to convert an additional 7Mt of Mineral Resources at the eastern end of Main Pit to Ore Reserves.

Life of mine all-in cash costs are projected at $53/wmt FOB, including development capex and final closure costs, resulting in an estimated breakeven Platts 62% Fe price of US$46/dmt including capital and closure costs. First ore sales are targeted for early 2019, with project payback estimated at 28 months after the commencement of sales.

Cash expenditure on the Koolan Island restart project totalled approximately $5 million in the June 2017 quarter, related primarily to equipment purchases, labour and equipment mobilisation, and waste rock placement. Preferred suppliers were identified for key contracts, including for seepage barrier construction, geotechnical drilling, cement supply, and specialist instrumentation supply and installation.

Material site works started in mid-June 2017 with the commencement of truck and barge dumping of waste rock to reinstate the starter embankment for the seawall.

A key focus of management during 2016/17 was the Company's insurance claim relating to the seawall failure. Discussions with insurers continued during 2016/17 in relation to the separate business interruption component of the claim. Subsequent to the end of the financial year in July 2017, the Company announced it had reached final agreement with 14 insurers, representing 92.5% of the Company's insurance cover for business interruption suffered as a result of the seawall failure, for a cash settlement of the claim for $64.3 million.

Proceeds of the settlement were received in July 2017, further strengthening the Company's cash position as it continues to evaluate resource investment opportunities and progresses activities to recommence production from the Main Pit at Koolan Island. Negotiations will continue separately with one further insurer representing the remaining 7.5% of the Company's business interruption coverage.

EXTENSION HILL/IRON HILL

The Extension Hill mine and adjacent Iron Hill Deposit are located in the Mount Gibson Ranges, 85km east of Perenjori and 260km east south east of Geraldton in the Mid-West region of Western Australia.

The operation was strongly cashflow positive over the year, despite the volatility of iron ore pricing and widening differential between the Platts 58% Fe and Platts 62% Fe pricing indices, reflecting the Company's ongoing focus on cost control and operational efficiency.

After five years of continuous production, mining was finally completed in the Extension Hill pit during November 2016. Material mined in the latter stages of the Extension Hill open pit was stockpiled for sale while the Company worked to secure final approvals to develop the nearby Iron Hill Deposit, located 3km south of the Extension Hill pit.

In February 2017, the Company received the final required regulatory approvals for Iron Hill and commenced mine development. Life-of-mine sales from Iron Hill are anticipated to total 5.5 to 6.0 million tonnes through to the expected end of production in late 2018, at an average site cash cost of $46-$48/wmt.

Iron Hill's proximity to Extension Hill enabled the Company to utilise the existing Extension Hill workforce, and existing camp, processing and transport infrastructure, with minimal capital expenditure. Mining commenced at Iron Hill in March 2017, and the first ore sales occurred in June 2017.

Combined ore sales from the Extension Hill/Iron Hill operations, exported through Geraldton Port, totalled 2.8 Mwmt in the 2016/17 year, comprising 1.3Mwmt of lump ore (including 0.1 Mwmt of lump from Iron Hill), 0.8 Mwmt of fines ore and 0.8Mwmt of low grade lump material from existing stockpiles at Extension Hill.

TALLERING PEAK

The Tallering Peak mine site closed in late 2014, with activity since then primarily related to final rehabilitation works. In the 2016/17 financial year, Mount Gibson monetised the last remaining remnant low grade material stockpiled at the mine site. These opportunistic sales, totalling 0.4 Mwmt of low grade lump and fines material, generated a modest cash margin and assisted with environmental rehabilitation at the Tallering Peak mine site.

Environment and Community

The key elements of health and safety, environment and community affairs form the basis for Mount Gibson's drive towards sustainable outcomes.

Sustainability refers to the conditions under which humans and nature can coexist in a productive manner and permit the environmental, social and economic requirements of present and future generations.

The social perspective has also had significant focus over the 2016/17 year. This includes always putting the health, safety and wellbeing of our people first.

ENVIRONMENT

Mount Gibson has placed significant emphasis on environmental management at its operations over the past year. From an environmental perspective, Mount Gibson has focused strongly on continuous improvement and innovation, always performing in an environmentally responsible manner and ensuring a high standard of environmental management at all of its locations.

Environmental reporting is a significant element of environmental management with many regulatory organisations requiring quarterly or annual reports. These include the federal Department of the Environment, the state Environmental Protection Authority, the Department of Environmental Regulation and the Department of Mines and Petroleum.

A key reporting obligation is the National Energy and Greenhouse Reporting Scheme which provides data on greenhouse gas emissions and energy production. The latest report for Mount Gibson shows a decrease in greenhouse gas emissions and energy consumption of approximately 35% and 36% respectively in 2016/17, reflecting the completion of mining at Extension Hill in November 2016 and Koolan Island remaining on care and maintenance prior to approval of the Koolan Island Restart Project in April 2017.

The Group holds various environmental licences and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. There were no material breaches of the Group's licences, permits and approvals during the period.

For details of the Company's environmental performance, including information relating to each site, please refer to Mount Gibson Iron's 2017 Sustainability Report, published on the Mount Gibson website.

COMMUNITY AFFAIRS

Mount Gibson values its relationship with key stakeholders and works to ensure a clear mutual understanding of its impacts from current and future operations. To do this, the company has an ongoing program of stakeholder consultation working together with the general communities in which we operate with an additional emphasis on the recognition of the traditional owners at our locations and areas of special heritage and cultural significance.

Mount Gibson's stakeholders include our customers, shareholders, employees, suppliers, landowners, traditional owners, regulators, local governments, interest groups and the broader community. The level of consultation is dependent on the interest noted by stakeholders and the proximity of a site to closure.

Investing in the creativity, education and health of our local communities is an important component of Mount Gibson's community engagement program. In line with our commitments the Company invested heavily in these areas and in the last 12 months and provided $463,000 in direct contributions to community organisations and projects. This compares with an equivalent investment of $435,000 in the prior year.

For details of Mount Gibson Iron's community investment activities and engagement with communities and stakeholders, including information relating to each site, please refer to Mount Gibson Iron's 2017 Sustainability Report, published on the Mount Gibson website.

Resources and Reserves

Total Mineral Resources and Ore Reserves by Project as at 30 June 2017

Koolan Island	Tonnes millions	Fe %	SiO_2 %	Al_2O_3 %	P %
Mineral Resources, above 50% Fe					
Measured	7.69	59.1	13.53	1.16	0.018
Indicated	41.93	64.4	6.36	0.76	0.014
Inferred	10.89	60.2	12.48	0.79	0.015
Total at 30 June 2017	**60.51**	**63.0**	**8.38**	**0.82**	**0.015**
Total at 30 June 2016	*60.51*	*63.0*	*8.38*	*0.82*	*0.015*
Ore Reserves, above 50% Fe					
Proved	0.04	63.49	6.68	1.31	0.014
Probable	12.77	66.03	3.70	0.92	0.009
Total at 30 June 2017	**12.82**	**66.02**	**3.71**	**0.93**	**0.009**
Total at 30 June 2016	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Extension Hill					
Mineral Resources, above 50% Fe					
Measured	1.27	55.32	9.16	2.76	0.077
Indicated	0.31	57.29	10.42	1.62	0.076
Inferred	0.20	56.61	10.49	1.66	0.055
Total at 30 June 2017	**1.79**	**55.81**	**9.53**	**2.44**	**0.074**
Total at 30 June 2016	*2.64*	*56.80*	*8.59*	*2.25*	*0.078*
Ore Reserves, above 50% Fe					
Proved	Nil	Nil	Nil	Nil	Nil
Probable	Nil	Nil	Nil	Nil	Nil
Total at 30 June 2017	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
Total at 30 June 2016	*1.15*	*58.0*	*7.21*	*2.09*	*0.088*
Iron Hill					
Mineral Resources, above 50% Fe					
Measured	Nil	Nil	Nil	Nil	Nil
Indicated	1.23	60.56	8.64	0.94	0.050
Inferred	6.84	57.87	8.72	1.74	0.071
Total at 30 June 2017	**8.07**	**58.28**	**8.71**	**1.62**	**0.068**
Total at 30 June 2016	*8.80*	*58.3*	*8.60*	*1.62*	*0.065*
Tallering Peak					
Mineral Resources, above 50% Fe					
Measured	0.41	58.9	6.26	3.50	0.082
Indicated	1.03	58.1	11.70	1.66	0.066
Inferred	0.20	54.7	17.89	1.93	0.056
Total at 30 June 2017	**1.65**	**57.9**	**11.10**	**2.15**	**0.069**
Total at 30 June 2016	*1.65*	*57.9*	*11.10*	*2.15*	*0.069*
Shine					
Mineral Resources, above 50% Fe					
Measured	5.73	58.9	9.04	1.81	0.076
Indicated	6.57	58.0	10.01	1.35	0.070
Inferred	3.59	56.8	9.61	1.18	0.063
Total at 30 June 2017	**15.89**	**58.1**	**9.57**	**1.48**	**0.071**
Total at 30 June 2016	*15.89*	*58.1*	*9.57*	*1.48*	*0.071*

Discrepancies may appear due to rounding. Mineral Resources are reported inclusive of Ore Reserves. All tonnages have been estimated as dry tonnages.

Total Group Mineral Resources and Ore Reserves at 30 June 2017 (above 50% Fe)

	Tonnes millions	Fe %	$Si0_2$ %	Al_20_3 %	P %
Total Mineral Resources at 30 June 2017	**87.9**	**61.4**	**8.70**	**1.07**	**0.032**
Total Ore Reserves at 30 June 2017	**12.8**	**66.0**	**3.71**	**0.93**	**0.009**
Total Mineral Resources at 30 June 2016	89.5	61.4	8.67	1.08	0.032
Total Ore Reserves at 30 June 2016	1.2	58.0	7.21	2.09	0.088
Discrepancies may appear due to rounding. Mineral Resources are reported inclusive of Ore Reserves. All tonnages have been estimated as dry tonnages.					

Material Change

The only significant change to occur in the annual reporting period, other than depletion by mining at Extension Hill, was the addition of Ore Reserves at the Koolan Island Operation to a total of 12.8Mt @ 66% Fe (30 June 2016: Nil) due to the successful completion of evaluation of the technical and financial viability of reinstating the Main Pit seawall and resuming production from Main Deposit. A decision to proceed with the Koolan Island Mine Restart Project was announced on 27 April 2017. Material works commenced in June 2017, with first ore sales targeted for early calendar 2019.

Competent Persons and Responsibilities

Mineral Resources:

The information in this report relating to Mineral Resources at Koolan Island, Extension Hill, Iron Hill, Tallering Peak and Shine is based on information compiled by Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists. Ms Haren was previously a full-time employee of, and is now a consultant to, Mount Gibson Iron Limited, and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Haren consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

Ore Reserves:

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by Brett Morey, a Competent Person who is a member of the Australasian Institute of Mining and Metallurgy. Mr Morey is a full-time employee of Mount Gibson Iron Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Morey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

For more information, refer to Mount Gibson's Annual Statement of Mineral Resources and Ore Reserves at 30 June 2017 on the Mount Gibson website.

Financial Report

Mount Gibson Iron

MOUNT GIBSON IRON LIMITED AND CONTROLLED ENTITIES
ABN 87 008 670 817

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2017

Directors' Report

Your Directors submit their report for the year ended 30 June 2017 for Mount Gibson Iron Limited ("**Company**" or "**Mount Gibson**") and the consolidated entity incorporating the entities that it controlled during the financial year ("**Group**").

DIRECTORS

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

Names, Qualifications, Experience and Special Responsibilities

Lee Seng Hui LLB (Hons)
Chairman, Non-Executive Director

Mr Lee was appointed as a Non-Executive Director on 29 January 2010, Non-Executive Deputy Chairman on 14 December 2012, and Chairman on 18 February 2014. Mr Lee graduated with Honours from the University of Sydney Law School. Mr Lee is the Chief Executive and an Executive Director of Allied Group Limited and Allied Properties (H.K.) Limited both of which are listed on the Hong Kong Stock Exchange. He is also the Chairman and a Non-Executive Director of Tian An China Investments Company Limited and Asiasec Properties Limited, and a Non-Executive Director of APAC Resources Limited, one of Mount Gibson's substantial shareholders.

Alan Jones CA
Independent Non-Executive Director

Mr Jones was appointed as an Independent Non-Executive Director on 28 July 2006 and is the current Chairman of the Nomination, Remuneration and Governance Committee. Mr Jones is a Chartered Accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. He is a Non-Executive Director of Mulpha Australia Ltd, Sun Hung Kai & Co Ltd (Hong Kong), Allied Group Ltd (Hong Kong), Allied Properties (H.K.) Limited and Air Change International Limited.

Li Shaofeng B.Automation
Non-Executive Director

Mr Li was appointed as a Non-Executive Director on 23 February 2012. Mr Li has extensive experience in the management of and investments in various listed companies, sino-foreign joint ventures and steel industry entities. He holds a bachelor degree in Automation from University of Science and Technology Beijing. He is the managing director of Shougang Holding (Hong Kong) Limited. Mr Li is an executive director and the managing director of Shougang Concord International Enterprises Company Limited, the chairman of each of Shougang Fushan Resources Group Limited, a substantial shareholder of Mount Gibson, Shougang Concord Century Holdings Limited, Shougang, and an executive director of BeijingWest Industries International Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Russell Barwick Dip.Min.Eng., FAICD, FAusIMM
Independent Non-Executive Director

Mr Barwick was appointed as an Independent Non-Executive Director on 16 November 2011 and is Chairman of the Operational Risk and Sustainability Committee. Mr Barwick is a mining engineer with 43 years of technical, operational, managerial and corporate experience in international mining companies covering various commodities. He has worked for Bougainville Copper Limited (CRA), Pancontinental Mining Ltd (Jabiluka Uranium) and CSR Limited (coal). He spent 17 years with Placer Dome Asia Pacific in key development, operational and corporate roles in numerous countries culminating in his appointment as Managing Director of Placer Niugini Ltd. He then served as Managing Director of Newcrest Mining Limited (2000 to 2001). For the four years to the end of 2006, Mr Barwick was the Chief Operating Officer of Wheaton River Minerals Ltd and Goldcorp Inc., based in Vancouver, Canada. He was subsequently the Chief Executive Officer of Canada-based Gammon Gold Inc. before returning to Australia in 2008. He is currently the Chairman of Red Metal Ltd and a Non-Executive Director of Lithium Power International Limited.

Simon Bird B.Acc.Science (Hons) FCPA, FAICD
Lead Independent Non-Executive Director

Mr Bird was appointed as an Independent Non-Executive Director on 23 February 2012. Mr Bird is the Lead Independent Director and Chairman of the Audit and Financial Risk Management Committee. Mr Bird has 30 years of international corporate experience, including holding the positions of General Manager Finance at Stockland Limited, Chief Financial Officer of GrainCorp Limited, and Chief Financial Officer of Wizard Mortgage Corporation. He was also Chief Executive Officer of ASX-listed King Island Scheelite Limited, a former Managing Director of Sovereign Gold Limited, a former Chairman of Rawson Resources Limited and a former Director of CPA Australia Limited. Mr Bird is currently a director of ASX-listed company Pacific American Coal Limited.

Professor Paul Dougas B.Eng (Chem), M.Eng.Science, FAICD, CEng., Hon Fellow Engineers Australia
Independent Non-Executive Director

Professor Dougas was appointed as an Independent Non-Executive Director on 16 November 2011 and is Chairman of the Contracts Committee. He has 40 years of design, process, project engineering, managerial, commercial and corporate experience having commenced his career in the Melbourne & Metropolitan Board of Works before joining engineering firm Sinclair Knight Merz ("**SKM**") in 1978. From initial technical roles, he assumed leadership roles in Sydney before returning to Melbourne as Associate Director and Victorian Branch Manager in 1985. In 1995 he was appointed Managing Director Elect and Director of Marketing before becoming Chief Executive Officer and Managing Director in 1996. For the following 15 years, he led a significant expansion of SKM locally and internationally involving more than 50 local and international acquisitions. Professor Dougas was a Non-Executive Director of ConnectEast Ltd from 2009 until its takeover in September 2011 and was also on the SKM Board from 1990 until 2011. He is currently Chairman of the Global Carbon Capture and Storage Institute, Non-Executive Director of Epworth Healthcare and a former Non-Executive Director of Beacon Foundation and Calibre Group Limited.

Kin Chan
Independent Non-Executive Director

Mr Chan was appointed a director on 22 September 2016. Mr Chan has more than 25 years' experience in international capital markets, investment banking, corporate advisory and major transactions, particularly in Asia. He is the founding shareholder of successful Hong Kong-based investment institution Argyle Street Management Limited (Argyle), and has been the Chief Investment Officer since inception in 2002. Mr Chan is also the Chairman of TIH Limited and Non-Independent Non-Executive Director of OUE Limited, both listed in Singapore. Through Argyle, Mr Chan has invested in mines in Asia and Australia and most recently has had a central role in the acquisition and planned recapitalisation of PT Berau Coal, a major Indonesian mining interest. Prior to founding Argyle, Mr Chan was Chief Executive and Managing Director of Lazard Asia Limited from 2000 to 2001 and managed the firm's advisory business in Asia outside of Japan. Prior to joining Lazard, Mr Chan was an Executive Director at Goldman, Sachs & Co. where he worked in Hong Kong, New York and Singapore from 1992 to 1999. Mr Chan holds an A.B. degree from Princeton University and an MBA degree from the Wharton School of the University of Pennsylvania where he was a Palmer Scholar.

Andrew Ferguson
Alternate Director to Lee Seng Hui

Mr Ferguson was appointed Alternate Director to Lee Seng Hui on 24 September 2012. Mr Ferguson is Chief Executive Officer and an Executive Director of APAC Resources Ltd, one of Mount Gibson's substantial shareholders. Mr Ferguson holds a Bachelor of Science Degree in Natural Resource Development and worked as a mining engineer in Western Australia in the mid 1990's. He has 15 years of experience in the finance industry specialising in global natural resources. In 2003, Mr Ferguson co-founded New City Investment Managers in the United Kingdom. He was the former co-fund manager of City Natural Resources High Yield Trust, and managed New City High Yield Trust Ltd and Geiger Counter Ltd. He has also worked as Chief Investment Officer for New City Investment Managers CQS Hong Kong. Mr Ferguson is a former Non-Executive Director of Metals X Limited and ABM Resources NL, both of which are listed on the Australian Securities Exchange.

COMPANY SECRETARY

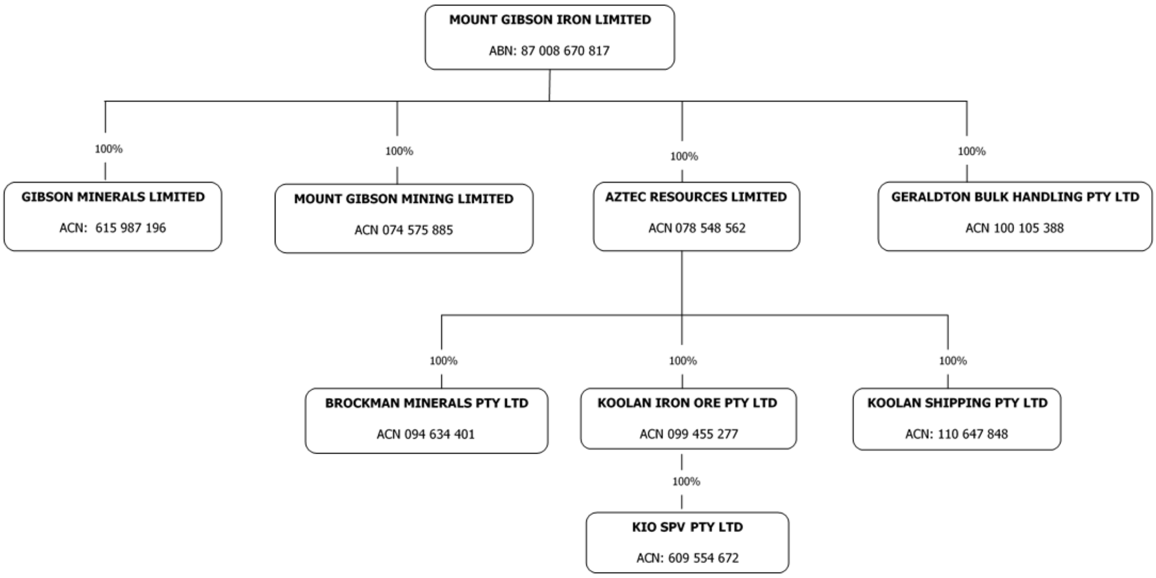
David Stokes B.Bus, LLB, ACIS
Company Secretary & General Counsel

Mr Stokes was appointed Company Secretary and General Counsel on 2 April 2012. He is a corporate lawyer with a diverse range of mining and governance experience having worked at a corporate and operational level in the energy and resources sectors for over 20 years. Prior to joining Mount Gibson, Mr Stokes was General Counsel and Company Secretary at Gindalbie Metals Limited, Corporate Counsel for Iluka Resources Limited and Resolute Mining Limited, and has also worked in private practice for a number of years.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the Group as at 30 June 2017 was as follows:



Nature of Operations and Principal Activities

The principal activities of the entities within the Group during the year were:

- mining of hematite iron ore at the Extension Hill and Iron Hill mine sites in the Mid-West region of Western Australia and haulage of the ore via road and rail for sale from the Geraldton Port;
- construction of the seawall in Koolan Island; and
- exploration and development of hematite iron ore deposits at Koolan Island and in the Mid-West region of Western Australia.

Employees

The Group employed 168 employees (excluding contractors) as at 30 June 2017 (2016: 126 employees).

OPERATING AND FINANCIAL REVIEW

Introduction

The Board presents the 2016/17 Operating and Financial Review which has been prepared to provide shareholders with a clear and concise overview of Mount Gibson's operations, financial position, business strategies and prospects. This review also provides a summary of the impact of key events which occurred in 2016/17 and the material business risks so that shareholders can make an informed assessment of the results and prospects of the Group.

The review complements Mount Gibson's financial statements for the year ended 30 June 2017 and has been prepared in accordance with Regulatory Guidance 247 published by the Australian Securities and Investments Commission ("**ASIC**").

Overview of the 2016/17 Financial Year

The Group's financial performance for the year ended 30 June 2017 reflected a solid operating performance by the Company's continuing Mid-West operations during a period of volatile iron ore pricing and significant operational transformation.

Pricing was particularly volatile over the 12 month period. At the beginning of the financial year, the Platts Index for delivery of 62% Fe iron ore fines to northern China was approximately US$55 per dry metric tonne ("**dmt**") and, after a period of relative stability, rose strongly between November 2016 and February 2017 at which time it peaked at just over US$90/dmt. The price subsequently declined sharply over the ensuing four months, hitting a low of US$54/dmt in mid-June 2017 to average US$70/dmt for the 12 month period. More significantly, the price differential between the benchmark Platts 62% Fe and 58% Fe indices widened significantly over the course of the year. After peaking at US$62/dmt in November 2016, the Platts 58% Fe index price dipped below US$32/dmt in June 2017, having a significant adverse impact on sales revenue from the Company's Mid-West operations.

Group ore sales totalled 3.2 million wet metric tonnes ("**Mwmt**") for the 12 month period reflecting the completion of mining in the Extension Hill pit in late 2016, after which all sales were sourced from remaining standard grade and low grade stockpiles at Extension Hill prior to the commencement of sales from the nearby Iron Hill deposit in June 2017. Sales were also augmented by the sale of remnant low grade stockpiled material at the closed Tallering Peak mine site.

Total sales revenue for the year was $173,128,000 comprising $162,043,000 from continuing operations at Extension Hill, and $11,085,000 from the discontinued Tallering Peak operation. Mount Gibson achieved an average realised price for standard iron ore fines product from Extension Hill of approximately US$44/dmt Free on Board ("**FOB**"), after grade and provisional pricing adjustments and penalties for impurities, compared with an average of US$34/dmt in the 2015/16 financial year. The weighted average realised price received for all products sold, on a wet tonnes basis, was $55/wmt FOB in 2016/17 compared with $48/wmt FOB in the prior financial year.

Cash reserves, including term deposits and tradeable investments, increased by $46,692,000 over the year, including receipt of the $34,558,000 balance of the property damage component of the Koolan Island insurance claim agreed in the prior financial year, to a total of $446,779,000 as at 30 June 2017. This does not include the $64,288,000 cash proceeds from the settlement of the business interruption component of the insurance claim which was reached and paid subsequent to the end of the financial year in July 2017.

Operating Results for the Financial Year

The summarised operating results for the Group for the year ended 30 June 2017 are tabulated below:

	Year ended:	30 June 2017*	30 June 2016*	30 June 2015*	30 June 2014	30 June 2013
Net profit/(loss) before tax	*$'000*	**24,841**	**85,536**	**(1,008,505)**	**163,698**	**128,440**
Taxation benefit/(expense)	*$'000*	1,481	761	97,083	(67,345)	28,902
Net profit/(loss) after tax	*$'000*	**26,322**	**86,297**	**(911,422)**	**96,353**	**157,342**
Earnings/(loss) per share	*cents/share*	2.41	7.91	(83.56)	8.84	14.45

* The figures for net profit/(loss) before tax and taxation benefit/(expense) for the years ended 30 June 2017, 2016 and 2015 are shown inclusive of discontinued operations. Refer the attached financial statements for further details.

Consolidated quarterly operating and sales statistics for the 2016/17 financial year are tabulated below:

Consolidated Group	Unit	Sept Quarter 2016	Dec Quarter 2016	Mar Quarter 2017	Jun Quarter 2017	2016/17	2015/16
Mining & Crushing							
Total waste mined	*kwmt*	328	28	6	295	**658**	5,295
Total ore mined#	*kwmt*	862	207	49	782	**1,899**	5,976
Total ore crushed	*kwmt*	773	728	915	876	**3,292**	5,180
Shipping/Sales							
Standard DSO Lump	*kwmt*	417	362	180	300	**1,259**	2,770
Standard DSO Fines	*kwmt*	294	295	176	-	**766**	2,076
Low Grade DSO	*kwmt*	175	239	425	303	**1,142**	125
Total	*kwmt*	887	896	782	603	**3,167**	4,971
Ave. Platts 62% Fe CFR northern China price	*US$/dmt*	**59**	**71**	**86**	**63**	**70**	**51**
MGX Free on Board (FOB) average realised fines price^	*US$/dmt*	**37**	**49**	**46**	**-***	**44**	**34**

kwmt = thousand wet metric tonnes

US$/dmt = USD per dry metric tonne

* No fines material was sold during the June 2017 quarter.

\# Includes low-grade ore at Extension Hill with grading 50-55% Fe that is considered to be saleable. This material is being stockpiled for future sale but continues to be treated as waste for accounting purposes.

^ Reflects the realised fines price for standard DSO fines ore only, after adjustments for shipping freight, grade, provisional invoicing adjustments and penalties for impurities. Contract pricing in the year was based on a mix of lagging-monthly and month-of-shipment averages.

Minor discrepancies may appear due to rounding.

Extension Hill/Iron Hill

The Extension Hill mine and adjacent Iron Hill Deposit are located in the Mount Gibson Ranges, 85km east of Perenjori and 260km east south east of Geraldton in the Mid-West region of Western Australia. Ore is mined, crushed and screened on-site, transported by sealed road 85km to Perenjori, where it is loaded onto rail wagons and railed 240km to the Geraldton Port. Mining commenced at Extension Hill in the 2011/12 financial year.

After five years of continuous production, mining was finally completed in the Extension Hill pit during November 2016. Material mined in the latter stages of the Extension Hill open pit was stockpiled for sale while the Company worked to secure final approvals to develop the nearby Iron Hill Deposit, located 3km south of the Extension Hill pit. The sales of stockpiled Extension Hill ore were augmented in the 2016/17 year by sales from existing low grade stockpiles.

In December 2016, the planned development of the Iron Hill deposit was approved by Western Australia's Environment Minister, and the Company received the final required regulatory approvals in February 2017, following which a development decision was made. Life-of-mine sales from Iron Hill are anticipated to total 5.5 to 6.0 million tonnes through to the expected end of production in late 2018, at an average site cash cost of $46-$48/wmt. Iron Hill has a Total Mineral Resource of 8.8Mt @ 58.3% Fe (refer ASX release dated 31 August 2016).

Iron Hill's proximity to Extension Hill enabled the Company to utilise the existing Extension Hill workforce of approximately 160 staff and contractors, and existing camp, processing and transport infrastructure, with minimal capital expenditure. Mining commenced at Iron Hill in March 2017, and the first ore sales occurred in June 2017.

Combined ore sales from the Extension Hill/Iron Hill operations, exported through Geraldton Port, totalled 2,751,000 wmt in the 2016/17 year. Sales comprised 1,259,000 wmt of lump ore (including 118,000 wmt from Iron Hill), 766,000 wmt of fines ore and 726,000 wmt of low grade lump material from existing stockpiles at Extension Hill.

At the end of June 2017, approximately 78,000 wmt of crushed high grade product was stockpiled at the mine. Stockpiles of uncrushed high grade Iron Hill material totalled 205,000 wmt and stockpiles of both crushed and uncrushed lower grade material totalled 2.9 Mwmt grading 50-55% Fe. Crushed ore stockpiles at the Perenjori rail siding totalled approximately 214,000 wmt of high grade ore and 197,000 wmt of low grade lump products.

The Extension Hill operation was strongly cashflow positive over the year, despite the volatility of iron ore pricing and widening differential between the Platts 58% Fe and Platts 62% Fe pricing indices, reflecting the Company's ongoing focus on cost control and operational efficiency.

Prior to commencing the Iron Hill development, in December 2016 Mount Gibson entered into three 12 month offtake agreements with customers for Iron Hill which each represented approximately 25% of planned available production in the first year of the operation. In late June and early July 2017 Mount Gibson terminated two of these offtake agreements after the relevant customers failed to comply with a fundamental term of their respective agreements. The Company has reserved its rights to pursue the former offtake customers for any losses resulting from the termination of these agreements. Mount Gibson has commenced selling this material to alternative customers, and expects to be able to continue doing so as product becomes available.

Production and shipping statistics for Extension Hill for the 2016/17 financial year are tabulated below:

Extension Hill **Production Summary**	**Unit**	**Sept Quarter 2016 '000**	**Dec Quarter 2016 '000**	**Mar Quarter 2017 '000**	**Jun Quarter 2017 '000**	**Year 2016/17 '000**	**Year 2015/16 '000**	***% Incr/ (Decr)***
Mining								
Waste mined*	*wmt*	328	28	6	295	**658**	**1,973**	*(67)*
Standard Ore mined	*wmt*	669	171	28	640	**1,508**	**3,864**	*(61)*
Low Grade Ore mined*	*wmt*	192	36	21	142	**391**	**731**	*(46)*
Total Ore Mined	*wmt*	**862**	**207**	**49**	**782**	**1,899**	**4,595**	*(59)*
Crushing								
Lump	*wmt*	452	438	558	530	**1,978**	**2,303**	*(14)*
Fines	*wmt*	321	290	357	346	**1,313**	**1,592**	*(18)*
		773	**728**	**915**	**876**	**3,292**	**3,895**	*(15)*
Transported to Perenjori Railhead								
Lump	*wmt*	399	440	607	535	**1,981**	**2,207**	*(10)*
Fines	*wmt*	348	265	8	201	**822**	**1,498**	*(45)*
		747	**705**	**615**	**736**	**2,803**	**3,705**	*(24)*
Transported to Geraldton Port								
Lump (Rail)	*wmt*	416	441	521	561	**1,939**	**1,985**	*(2)*
Fines (Rail)	*wmt*	309	235	176	81	**801**	**1,360**	*(41)*
		725	**676**	**697**	**642**	**2,740**	**3,345**	*(18)*
Shipping								
Lump	*wmt*	417	362	180	300	**1,259**	**1,963**	*(36)*
Fines	*wmt*	294	295	176	-	**766**	**1,419**	*(46)*
Low Grade Lump	*wmt*	-	118	305	303	**726**	**-**	-
		711	**775**	**662**	**603**	**2,751**	**3,382**	*(19)*

* Low grade ore is material grading 50-55% Fe considered to be potentially saleable. This material is being stockpiled for future sale but continues to be treated as waste for accounting purposes.

Minor discrepancies may appear due to rounding.

Koolan Island

The Koolan Island mine was placed on care and maintenance in the June 2016 quarter pending completion of the Company's evaluation of the potential to reinstate the Main Pit seawall and resume high grade ore production.

Evaluation and planning work was successfully completed in April 2017. A decision to proceed was announced on 27 April 2017, following confirmation of a safe and viable seawall design and construction method, re-establishment of Ore Reserves, attractive viable capital and operating cost estimates, and receipt of necessary regulatory approvals (refer ASX release dated 27 April 2017).

As reported, seawall reconstruction and pit dewatering costs are estimated at $97,000,000, including $10,000,000 in contingencies, with estimated peak cash draw prior to cashflow of $145,000,000. Ore Reserves totalling 12.8Mt grading 66.0% Fe were re-established for Main Pit, giving an initial mine life of 3.5 years. A potential Stage Two pit extension is under evaluation to convert an additional 7Mt of Mineral Resources at the eastern end of Main Pit to Ore Reserves.

Life of mine all-in cash costs are projected at $53/wmt FOB, including development capex and final closure costs, resulting in an estimated breakeven Platts 62% Fe price of US$46/dmt including capital and closure costs.

First ore sales are targeted for early 2019, with project payback estimated at 28 months after the commencement of sales.

Cash expenditure on the Koolan Island restart project totalled approximately $5,000,000 in the June 2017 quarter, related primarily to equipment purchases, labour and equipment mobilisation, and waste rock placement. Preferred suppliers were identified for key contracts, including for seepage barrier construction, geotechnical drilling, cement supply, and specialist instrumentation supply and installation.

Material site works started in mid-June 2017 with the commencement of truck and barge dumping of waste rock to reinstate the starter embankment for the seawall. By end of June 2017, approximately 100,000 cubic metres of waste rock had been placed.

The Koolan Island labour force increased to 64 personnel by end of June 2017, representing the bulk of the anticipated workforce required during the construction phase.

No production or shipping occurred at Koolan Island for the 2016/17 financial year.

Tallering Peak

In the 2016/17 financial year, Mount Gibson monetised some remnant low grade stockpiled material remaining at the mine site. These opportunistic sales, totalling 417,000 wmt of low grade lump and fines material, generated a modest cash margin and assisted with environmental rehabilitation at the Tallering Peak mine site.

Production and shipping statistics for Tallering Peak in the 2016/17 financial year are tabulated below:

Tallering Peak **Production Summary**	**Unit**	**Sept Quarter 2016 '000**	**Dec Quarter 2016 '000**	**Mar Quarter 2017 '000**	**Jun Quarter 2017 '000**	**Year 2016/17 '000**	**Year 2015/16 '000**	**% Incr/ (Decr)**
Transported to Geraldton Port								
- Lump	*wmt*	19	-	-	-	**19**	**159**	*(88)*
- Fines	*wmt*	141	159	59	-	**359**	**-**	-
		160	**159**	**59**	**-**	**378**	**159**	*138*
Shipping								
- Low Grade DSO Lump	*wmt*	58	-	-	-	**58**	**125**	*(54)*
- Low Grade DSO Fines	*wmt*	117	122	120	-	**359**	**-**	-
		175	**122**	**120**	**-**	**417**	**125**	*234*

Minor discrepancies may appear due to rounding.

EXPLORATION AND DEVELOPMENT

Shine Project

The Total Mineral Resources at the Shine Project, located 85km north of Extension Hill, comprise 15.9 Mt @ 58.1% Fe (refer ASX release dated 31 August 2016). The Shine Project remains a potentially viable development opportunity when iron ore market conditions improve.

CORPORATE

Financial Position

The Group's cash, term deposit and tradeable investments balances totalled $446,779,000 at 30 June 2017, an increase of $46,692,000 from the balance of $400,087,000 as at 30 June 2016. The increase reflected business cashflow generated during the financial year and receipt of the $34,558,000 balance of the property damage component of the Koolan Island insurance claim agreed in the prior financial year.

As at the balance date, the Company's current assets totalled $479,337,000 and its current liabilities totalled $38,094,000. As at the date of this report, the Group has sufficient funds in addition to access to further equity and debt funding to maintain its existing operations and to advance its exploration and growth objectives.

Derivatives

As at 30 June 2017, the Group held foreign exchange collar option contracts covering the conversion of US$12,000,000 into Australian dollars over the period July 2017 to September 2017 with a cap price of A$1.00/US$0.7550 and floor price of A$1.00/US$0.7205. These collar contracts had a marked-to-market value at balance date of $341,000.

Mount Gibson also took advantage of higher iron ore prices earlier in the financial year to enter into forward sales contracts covering 360,000 tonnes of anticipated iron ore sales in the June half of 2017. The contracts were settled during the period with the final contract at the end of June 2017 having a cash settlement value of $1,104,000 which was received in July 2017.

Koolan Island Seawall Insurance Claim

Following the $86,000,000 cash settlement of the property damage component of the Company's insurance claim reached with the insurers in June 2016, discussions continued during 2016/17 between Mount Gibson and its insurers in relation to the separate business interruption component of the claim. Subsequent to the end of the financial year in July 2017, the Company announced it had reached final agreement with 14 insurers, representing 92.5% of the Company's insurance cover for business interruption suffered as a result of the seawall failure, for a cash settlement of the claim for $64,288,000.

Proceeds of the settlement have since been received, further strengthening the Company's cash position as it continues to evaluate resource investment opportunities and progresses activities to recommence production from the Main Pit at Koolan Island.

Negotiations will continue separately with one further insurer representing the remaining 7.5% of the Company's business interruption coverage.

The business interruption settlement takes total cash proceeds received from Mount Gibson's insurance claim relating to the seawall failure to just over $150,000,000.

Likely Developments and Expected Results

Mount Gibson's overall objective is to maintain and grow long-term profitability through the discovery, development, operation and acquisition of mineral resources. As an established producer and seller of hematite iron ore, Mount Gibson's strategy is to grow its profile as a successful and profitable supplier of raw materials.

Key influences on the success of Mount Gibson are not only iron ore prices and foreign exchange rates but also consistency in government policy, the continued attainment of regulatory approvals, the ability to delineate new mineral resources and ore reserves, and the continued control of operating and capital costs.

The Board's corporate objective is to grow the Company's cash reserves and continue to pursue an appropriate balance between the retention and utilisation of cash reserves for value-accretive investments. The Board has determined the following key business objectives for the 2017/18 financial year:

- **Extension Hill/Iron Hill** – continue to mine the Iron Hill deposit while optimising production rates and controlling costs, to extend the life of the Extension Hill operation and prepare the site for its ultimate closure in the following year.
- **Koolan Island** – successfully rebuild the Main Pit seawall, dewater the pit and prepare the site for commencement of commercial production, with initial ore sales anticipated in early 2019.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** – maintain the increased yield on the Group's cash reserves.
- **Growth projects** - continuation of the search for business development opportunities in the resources sector.

Extension Hill Outlook

As previously reported, during the 2016/17 year the Group secured the final outstanding approvals for development of the Iron Hill deposit and commenced initial ore sales. Life-of-mine sales from Iron Hill are anticipated to total 5.5-6.0Mwmt through to the expected end of production in late 2018, at an average site cash cost of $46-48/wmt sold.

Iron Hill sales will be augmented by sales from existing Extension Hill low grade stockpiles when suitable prices can be attained.

Koolan Island Outlook

Activity at Koolan Island is now focused on the rebuild of the Main Pit seawall and the recommencement of commercial production, with first ore sales targeted for early 2019. As reported, seawall reconstruction and pit dewatering costs are estimated at $97,000,000, with estimated peak cash draw prior to cashflow of $145,000,000. Ore Reserves totalling 12.8Mt grading 66.0% Fe were re-established for Main Pit (refer ASX release dated 27 April 2017), giving an initial mine life of 3.5 years. A potential Stage Two pit extension is under evaluation to convert an additional 7Mt of Mineral Resources at the eastern end of Main Pit to Ore Reserves.

Life of mine all-in cash costs are projected at $53/wmt FOB, including development capex and final closure costs, resulting in an estimated breakeven Platts 62% Fe price of US$46/dmt including capital and closure costs.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects its annual sales for the 2017/18 financial year to be between 3.5 and 3.8 Mwmt of iron ore at an average all-in group cash cost of $47-52/wmt. All-in group cash costs are reported FOB and include cash operating expenditure, royalties, sustaining capital expenditure and corporate costs, and exclude project capital expenditure.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 7 July 2017, the Company announced it had reached final agreement with 14 insurers, representing 92.5% of the Company's underwriting cover for business interruption in relation to the Company's insurance claim for the late 2014 seawall failure at Koolan Island. No amount has been recognised in the year ended 30 June 2017. Proceeds of the cash settlement amounting to $64,288,000 have since been received. Negotiations will continue separately with one further insurer representing the remaining 7.5% of the Company's business interruption coverage.

On 15 August 2017, the Company declared a final dividend on ordinary shares in respect of the 2016/17 financial year of $0.02 per share fully franked. The total amount of the dividend is $21,931,000. The dividend has not been provided for in the 30 June 2017 financial statements.

Apart from the above, as at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

DIVIDENDS

There were no dividends paid during the financial year ended 30 June 2017. A final dividend of 2.0 cents per share fully franked has been declared for the year ended 30 June 2017. Refer "Significant Events After Balance Date" above.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

The Company has, during current or previous financial periods, entered into deeds of access and indemnity with certain Directors. These deeds provide access to documentation and indemnification against liability for loss suffered, as a result of any act or omission, to the extent permitted by the *Corporations Act 2001*, from conduct of the Group's business.

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as such a Director, Company Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001*.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contracts.

The Company has agreed to indemnify its auditors, Ernst & Young, to the fullest extent possible as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

SHARE OPTIONS, PERFORMANCE RIGHTS AND RESTRICTED SHARES

There were no options exercised or forfeited during the financial year or prior to the date of this Report. There are no options over ordinary shares in the Company on issue as at balance date and as at the date of this Report.

There were 533,625 Performance Rights vested and exercised during the year. In addition, 177,875 Performance Rights were forfeited during the financial year. There are no Performance Rights on issue as at balance date and as at the date of this Report.

There were 4,749,456 restricted shares issued during the year under the Company's Loan Share Plan, and these shares remain on issue at balance date and as at the date of this report.

Refer to the Remuneration Report for further details of options, Performance Rights and restricted shares outstanding.

DIRECTORS' INTERESTS IN THE SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests of the Directors in the Shares and Options of the Company were:

	Ordinary Shares	Options over Shares	Performance Rights over Shares
Lee Seng Hui(i)	-	-	-
A Jones	300,000	-	-
Li Shaofeng	-	-	-
R Barwick	-	-	-
S Bird	20,000	-	-
P Dougas	284,944	-	-
K Chan(ii)	-	-	-
A Ferguson (Alternate for Mr Lee)	-	-	-

(i) For the purposes of Corporations Act Regulation 2M.3.03(1)-Item 18, Mr Lee does not have a disclosable shareholding. However, we note that for purposes of ASX Listing Rule 3.19A.2, Mr Lee has previously declared an indirect "relevant interest" in 323,780,748 ordinary shares in the Company through his association with Allied Group Limited, a substantial shareholder of the Company – refer ASX announcement dated 27 June 2016.

(ii) For the purposes of Corporations Act Regulation 2M.3.03(1)-Item 18, Mr Chan does not have a disclosable shareholding. However, we note that for purposes of ASX Listing Rule 3.19A.1, Mr Chan has previously declared an indirect "relevant interest" in 54,718,470 ordinary shares in the Company through his association with investment fund manager Argyle Street Management Limited, a substantial shareholder of the Company – refer ASX announcement dated 23 September 2016.

DIRECTORS' MEETINGS

The number 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 and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee	Operational Risk and Sustainability Committee	Contracts Committee
Number of Meetings Held	11	4	4	6	4
Lee Seng Hui	9	4	3	-	2
A Jones	11	4	4	1	3
Li Shaofeng	8	-	-	-	-
R Barwick	11	1	4	6	4
S Bird	11	4	-	6	4
P Dougas	11	2	1	6	4
K Chan	9	1	1	1	2
A Ferguson (Alt. for Mr Lee)	1	-	-	-	-

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group has developed Environmental Management Plans for its various operating and development sites. The Environmental Management Plans have been approved by the Western Australian Government Departments of Mines and Petroleum, Environmental Protection Authority and, where applicable, Department of Parks and Wildlife and the Department of Health. In addition, plans associated with specific species have been approved by the Federal Department of the Environment.

The Environmental Protection Authority has also granted approval for the sites' management systems and plans. In addition, the Department of Environmental Regulation has granted approval of works to allow construction and operation of "prescribed" facilities and the Department of Mines and Petroleum has granted approval for Mining Proposals at each of the mine sites.

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

There have been no material breaches of the Group's licences, permits and approvals.

The Group continues to report under the National Greenhouse and Energy Reporting (NGER) Act 2009. Diesel combustion is the largest source of greenhouse gas emissions.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings on behalf of the Company under section 237 of the *Corporations Act 2001* in the financial year or at the date of this report.

ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191. The Company is an entity to which the instrument applies.

CURRENCY

Amounts in this report and the accompanying financial report are presented in Australian dollars unless otherwise stated.

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement is contained in the Additional ASX Information section of the Annual Report.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, the Directors received the attached Independence Declaration from the auditor of the Company on page 29 which forms part of this Report.

NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. EY received $3,605 for the provision of non-audit service in relations to a Traditional Owner royalty audit during the financial year ended 30 June 2017.

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the remuneration arrangements in place for Directors and Key Management Personnel of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any directors of the Company.

Nomination, Remuneration and Governance Committee ("NRGC")

The NRGC comprises two independent Non-Executive Directors, being Messrs Jones (Chairman) and Barwick, and one non-independent Non-Executive Director, being Mr Lee, the Chairman of the Board.

The NRGC of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and Key Management Personnel.

The NRGC assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel 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, high performing Board and executive team.

Remuneration Policy

The Remuneration Policy of the Group has been put in place to ensure that:

- remuneration policies and systems support the Company's wider objectives and strategies;
- Directors' and senior executives' remuneration is aligned to the long-term interests of shareholders within an appropriate control framework; and
- there is a clear relationship between the executives' performance and remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior executive management remuneration is separate.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined is then divided between the Non-Executive Directors as agreed. The latest determination was at the Annual General Meeting held on 16 November 2011 when Shareholders approved an aggregate remuneration of $1,250,000 per year. Total Non-Executive Director fees of $632,125 were paid/payable in the 2016/17 financial year.

Each Non-Executive Director receives a fee for being a Director of the Company.

Non-Executive Directors should be adequately remunerated for their time and effort and the risks involved. Non-Executive Directors are remunerated to recognise the responsibilities, accountabilities and associated risks of Directors.

Each Non-Executive Director's performance and remuneration is reviewed on an annual basis by the Chairman and NRGC.

Non-Executive Directors' fixed remuneration will comprise the following elements:

- cash remuneration; and
- superannuation contributions made by the Company.

Board operating costs do not form part of Non-Executive Directors' remuneration.

Senior Executives' Remuneration

Objective

The Company aims to reward senior executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward senior executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of senior executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Use of Remuneration Consultants

The NRGC from time to time seeks advice from independent remuneration consultants regarding senior executives' remuneration structures and levels. Such consultants are engaged by, and report directly to, the NRGC, and are required to confirm in writing their independence from the Group's senior and other executives. No remuneration consultants were appointed for this purpose during the 2016/17 financial year.

Fixed Remuneration

The components of the senior executives' fixed remuneration are determined individually and may include:

- cash remuneration;
- superannuation;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

The senior executives' remuneration is reviewed on an annual basis by the Chief Executive Officer, whose remuneration is reviewed annually by the NRGC.

In determining the remuneration package, the NRGC reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, the Company's expected performance for the year is considered in the context of the Company's capacity to fund remuneration budgets.

Variable Remuneration

Short-term Incentives ("STI")

Senior executives may receive variable remuneration in the form of STI of up to 30-50% of their annual salary package. STI payments are linked to defined performance measures and provide rewards for completing actions and objectives that are expected to materially improve Company performance. The total potential STI available for award is ultimately at the Board's discretion and is measured to provide sufficient incentive to the senior executives to achieve the objectives set, such that the cost to the Group is reasonable in the circumstances.

The performance measures typically comprise a combination of group and individual measures, chosen to align the interests of senior executives with shareholders, representing the key drivers for short term success of the business and providing a framework for delivering long term value.

On an annual basis, the performance of each senior executive is reviewed immediately prior to or just after the reporting date. The NRGC then determines the amount of STI to be allocated to each executive. Payments are made in cash after the reporting date.

The Board exercised its discretion to make an award for the 2016/17 financial year based on the achievement of a number of milestones including receipt of all regulatory approvals for, and commencement of mining operations within, the Iron Hill deposit, completion of the feasibility study for reinstatement of the Koolan Island Main Pit seawall and commencement of site activities, advancement of the Koolan Island seawall insurance claim and, subsequent to year end, settlement of the business interruption component thereof, continued cost control within the business and evaluation of a number of business development opportunities.

Accordingly, for the 2017 financial year, a total STI cash incentive of $862,796 was awarded to Key Management Personnel, representing 100% of the total STI cash incentives available to each of Messrs Beyer, Kerr, de Kruijff and Stokes. The amount of the STI is included in the Company's financials for the year and was paid after year-end.

Long-term Incentives ("LTI")

The Company previously established the Mount Gibson Iron Limited Performance Rights Plan ("**PRP"**) in the 2008 financial year. Under the PRP, the Board may invite eligible executives to apply for Performance Rights, which are an entitlement to receive ordinary shares in the Company, subject to satisfaction by the executive of specified performance hurdles set by the Board. The rights are granted at no cost to the executives and convert into ordinary shares on completion by the executive of approximately three years' continuous service, subject to satisfaction of specified performance hurdles, unless such conditions are waived by the Board exercising its discretion. LTI awards are issued and tested for vesting against the Company's Total Shareholder Return relative to a comparator group of iron ore companies over a 2-3 year period. The comparator group of companies comprised Rio Tinto Limited, Fortescue Metals Group Limited, Grange Resources Limited, Arrium Limited, Atlas Iron Limited, BC Iron Limited, Gindalbie Metals Limited and Western Desert Resources Limited. The employment contracts for the Chief Executive Officer, Mr Beyer, the Company Secretary & General Counsel, Mr Stokes, and the Chief Financial Officer, Mr Kerr, incorporate payment of a LTI. Under their employment contracts and subject to Board discretion, these executives may each year be the invited to apply for, and the Company will grant, a number of Performance Rights equivalent to up to one third of their respective base salaries (including superannuation) divided by the volume weighted average price of the Company's shares as traded on ASX for the 30 day period prior to 30 June for the relevant year.

On 1 July 2016, 533,625 Performance Rights issued under the PRP in the 2013/14 financial year vested into ordinary shares in accordance with their terms, reflecting 75% of the Performance Rights that were available to vest at that time. The remaining 177,875 Performance Rights, representing 25% of those issued in the 2013/14 financial year, did not vest and were cancelled. No new Performance Rights were issued under the PRP in the 2016/17 financial year as the Board decided to establish a new LTI plan.

This new LTI plan, known as the Loan Share Plan (**"LSP"**), was established in August 2016. Under the LSP, ordinary shares in the Company may be issued to eligible participants, with vesting of the shares being subject to the satisfaction of stipulated performance conditions. The shares are issued at their market value with the recipient required to pay this market value in order to take up the share offer. The Company or any of its subsidiaries will provide a loan to fund the acquisition price. The loan is interest-free and is secured against the shares in the form of a holding lock preventing all dealing in the shares. The loan is limited recourse such that if the shares do not ultimately vest and are therefore forfeited, this is treated as full repayment of the loan balance. While the loan balance remains outstanding, any dividends paid on the shares will be automatically applied towards repayment of the loan. In making the loan in respect of the newly issued shares, there is no cash cost to the Company as the shares are newly issued.

On 24 August 2016 the Company issued a total of 4,749,456 shares to Messrs Beyer, Kerr and Stokes under the LSP, representing their full entitlement for LTI awards equating to one third of their base salaries (including superannuation). In accordance with the terms of the LSP, the shares were issued at a market price of $0.316 per share with the participants responsible for associated limited recourse loans totalling $1,500,828. In order for the shares to vest, the participants must remain continuously employed by the Group to at least the end of the financial year and the Company's share price, as measured by a rolling five day volume weighted average price of the Company's shares traded on the ASX, must on 1 July 2017 or at any time in the following four year period be above a 10% premium to the issue price of the shares. The award has been accounted for as an in-substance option award, with the fair value at grant date assessed at $0.104 per share.

The Company has a policy restricting executives from entering into arrangements to protect the value of unvested LTI entitlements under equity-based remuneration plans.

Employment Contracts

As at the date of this report, the Group had entered into employment contracts with the following executives:

Jim Beyer

The key terms of his contract include:

- Commenced as Chief Operating Officer on 2 November 2011 and was appointed as Chief Executive Officer on 14 May 2012, with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Beyer is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Beyer wishes to terminate the contract, he must provide six months' notice.

Peter Kerr

The key terms of his contract include:

- Commenced 19 September 2012 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Kerr is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Kerr wishes to terminate the contract, he must provide six months' notice.

David Stokes

The key terms of his contract include:

- Commenced 2 April 2012 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one half of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If the Company wishes to terminate the contract other than if Mr Stokes is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of his duties, the Company is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Stokes wishes to terminate the contract, he must provide six months' notice.

Scott de Kruijff

The key terms of his contract include:

- Commenced as General Manager Koolan Island on 17 September 2013 and subsequently appointed as General Manager – Operations on 1 July 2015 with no set term;
- Annual Salary review subject to performance;
- Operational incentive of up to 30% of Annual Salary Package;
- Employee can terminate upon one month's notice and the Company upon six weeks' notice, or immediately for any serious misconduct.

Details of directors and key management personnel disclosed in this report

[i] Directors

Lee Seng Hui	Chairman
A Jones	Non-Executive Director
Li Shaofeng	Non-Executive Director
R Barwick	Non-Executive Director
S Bird	Lead Non-Executive Director
P Dougas	Non-Executive Director
K Chan	Non-Executive Director (from 22 September 2016)
A Ferguson	Alternate Director to Mr Lee

[ii] Key Management Personnel

J Beyer	Chief Executive Officer
P Kerr	Chief Financial Officer
D Stokes	Company Secretary and General Counsel
S de Kruijff	General Manager - Operations

Remuneration of Key Management Personnel for the year ended 30 June 2017

	Short Term				Post Employment	Long Term	Share Based Payment		
30 June 2017	**Salary & Fees $**	**Non Monetary[(a)] $**	**Cash Incentives[(b)] $**	**Accrued Annual Leave[(c)] $**	**Super-annuation $**	**Long Service Leave[(d)] $**	**Restricted Shares[(e)] $**	**Total $**	**% Perform-ance Related**
Directors									
Lee Seng Hui	102,854	-	-	-	9,771	-	-	**112,625**	-
A Jones	105,479	-	-	-	10,021	-	-	**115,500**	-
Li Shaofeng	-	-	-	-	-	-	-	**-**	-
R Barwick	105,479	-	-	-	10,021	-	-	**115,500**	-
S Bird	112,329	-	-	-	10,671	-	-	**123,000**	-
P Dougas	101,875	-	-	-	625	-	-	**102,500**	-
K Chan	57,534	-	-	-	5,466	-	-	**63,000**	-
A Ferguson (Alt)	-	-	-	-	-	-	-	**-**	-
Sub-total	**585,550**	**-**	**-**	**-**	**46,575**	**-**	**-**	**632,125**	
Other KMP									
J Beyer	627,776	15,618	338,350	28,444	48,924	20,282	225,564	**1,304,958**	43
P Kerr	424,500	11,219	227,250	9,552	30,000	5,099	151,498	**859,118**	44
D Stokes	320,645	9,401	175,322	-	30,000	4,230	116,881	**656,479**	45
S de Kruijff	371,245	8,507	121,874	1,423	35,000	2,045	-	**540,094**	23
Sub-total	**1,744,166**	**44,745**	**862,796**	**39,419**	**143,924**	**31,656**	**493,943**	**3,360,649**	
Totals	**2,329,716**	**44,745**	**862,796**	**39,419**	**190,499**	**31,656**	**493,943**	**3,992,774**	

(a) Non-Monetary include the value (where applicable) of benefits such as group life insurance that are available to all employees of Mount Gibson and car parking, and are inclusive of Fringe Benefits Tax where applicable.

(b) Cash incentives represent short term incentives awarded during the year and was paid after year-end.

(c) Annual leave has been separately categorised and is measured on an accrual basis and reflects the movement in the accrual over the twelve-month period. Any reduction in accrued leave reflects more leave taken or cashed out than that which accrued in the period.

(d) Represents the accrual for long service leave over the twelve-month period.

(e) The fair values of the restricted shares were calculated as at the grant date and represent the accounting expense incurred by the Company for the stated financial period, reflecting the terms of the particular Performance Rights or restricted shares. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may in fact receive.

Options granted as part of remuneration for the year ended 30 June 2017

There were no options granted to Directors and Executives during the year ended 30 June 2017 and there are no options outstanding as at 30 June 2017.

Shares granted as part of remuneration for the year ended 30 June 2017

On 24 August 2016, a total of 4,749,456 restricted shares were granted under the LSP. The award has been accounted for as an in-substance option award with the fair value assessed at grant date as $0.104 per LSP share. Refer the section above titled "Long Term Incentives" for details of the shares issued under the LSP.

	Grant Date	LSP Shares Granted (#)	Fair Value at Grant Date[1] ($/LSP share)	Value of LSP Shares Granted ($)	LSP Loan ($)	Vesting Date & Condit-ions	Expiry Date	LSP Shares Vested in Year (#)	Value of LSP Shares Vested in Year[3] ($)
J Beyer	24-Aug-16	2,168,889	$0.104	$225,564	$685,369	Note 2	1-Jul-21	-	-
P Kerr	24-Aug-16	1,456,716	$0.104	$151,498	$460,322	Note 2	1-Jul-21	-	-
D Stokes	24-Aug-16	1,123,851	$0.104	$116,881	$355,137	Note 2	1-Jul-21	-	-
Total		**4,749,456**		**$493,943**	**$1,500,828**			**-**	**-**

1. Determined at the time of grant per AASB 2, refer note 24(d) in the financial statements.
2. In order for the LSP shares to vest, participants must remain continuously employed by the Group to at least the end of the financial year and the Company's share price, as measured by a rolling 5-day volume weighted average price of the Company's shares traded on the ASX, must on 1 July 2017 or at any time prior to expiry, be above a 10% premium to the issue price of the LSP shares.
3. Determined at the time of exercise at the intrinsic value of the LSP share.

During the year ended 30 June 2017, there were no alterations to the terms and conditions of LSP shares after their grant date.

Performance Rights granted as part of remuneration for the year ended 30 June 2017

There were no performance rights granted as part of remuneration during the year ended 30 June 2017.

Performance Rights vested

The following Performance Rights vested during the financial year:

	30 June 2017	30 June 2016
J Beyer	258,075	243,450
P Kerr	161,625	121,340
D Stokes	113,925	109,560

A total of 533,625 Performance Rights vested and were exercised during the financial year ended 30 June 2017 in accordance with their terms. In accordance with the PRP, no amounts were paid, or remain unpaid, on the exercise of these Performance Rights.

Performance Rights benefits

For each grant of Performance Rights, the percentage of the available grant that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The Performance Rights vest after two to three years, providing the vesting conditions are met (refer above).

	Year Granted	Vested %	Forfeited/ Lapsed %	Financial Years Performance Rights May Vest
J Beyer	2012/13	100	-	-
J Beyer	2013/14	75	25	-
P Kerr	2012/13	100	-	-
P Kerr	2013/14	75	25	-
D Stokes	2012/13	100	-	-
D Stokes	2013/14	75	25	-

Performance Rights holdings by Key Management Personnel as at 30 June 2017

	Balance 30 June 2016	Granted as Remuneration	Exercised during the year	Lapsed/ forfeited during the year	Balance 30 June 2017
Directors					
Lee Seng Hui	-	-	-	-	-
A Jones	-	-	-	-	-
Li Shaofeng	-	-	-	-	-
R Barwick	-	-	-	-	-
S Bird	-	-	-	-	-
P Dougas	-	-	-	-	-
K Chan	-	-	-	-	-
A Ferguson (Alt. for Mr Lee)	-	-	-	-	-
Other KMP					
J Beyer	344,100	-	(258,075)	(86,025)	-
P Kerr	215,500	-	(161,625)	(53,875)	-
D Stokes	151,900	-	(113,925)	(37,975)	-
S de Kruijff	-		-	-	-
Total	**711,500**	**-**	**(533,625)**	**(177,875)**	**-**

At 30 June 2017, there were no Performance Rights on issue.

Shares issued on exercise of Options and Performance Rights for the year ended 30 June 2017

There were no shares issued on the exercise of options during the year ended 30 June 2017 (2016: nil).

There were 533,625 shares issued on the exercise of 533,625 Performance Rights on 1 July 2016 in accordance with their terms.

Shareholdings of Key Management Personnel as at 30 June 2017

	Balance 1 July 2016 Ord	Granted as Remuneration Ord^	Exercise of Performance Rights Ord	Net Change Other Ord	Balance 30 June 2017 Ord
Directors					
Lee Seng Hui[(i)]	-	-	-	-	-
A Jones	300,000	-	-	-	300,000
Li Shaofeng	-	-	-	-	-
R Barwick	-	-	-	-	-
S Bird	20,000	-	-	-	20,000
P Dougas	284,944	-	-	-	284,944
K Chan[(ii)]	-	-	-	-	-
A Ferguson (Alt. for Mr Lee)	-	-	-	-	-
Other KMP					
J Beyer	484,104	2,168,889	258,075	-	2,911,068
P Kerr	121,340	1,456,716	161,625	-	1,739,681
D Stokes	109,560	1,123,851	113,925	-	1,347,336
S de Kruijff	-	-	-	-	-
Total	**1,319,948**	**4,749,456**	**533,625**	**-**	**6,603,029**

^ Restricted ordinary shares granted during the year under the Company's LSP. Refer the section above titled "Long Term Incentives" for details of the shares issued under the LSP.

(i) For the purposes of Corporations Act Regulation 2M.3.03(1)-Item 18, Mr Lee does not have a disclosable shareholding. However, we note that for purposes of ASX Listing Rule 3.19A.2, Mr Lee has previously declared an indirect "relevant interest" in 323,780,748 ordinary shares in the Company through his association with Allied Group Limited, a substantial shareholder of the Company – refer ASX announcement dated 27 June 2016.

(ii) For the purposes of Corporations Act Regulation 2M.3.03(1)-Item 18, Mr Chan does not have a disclosable shareholding. However, we note that for purposes of ASX Listing Rule 3.19A.1, Mr Chan has previously declared an indirect "relevant interest" in 54,718,470 ordinary shares in the Company through his association with investment fund manager Argyle Street Management Limited, a substantial shareholder of the Company – refer ASX announcement dated 23 September 2016.

Remuneration of Key Management Personnel for the year ended 30 June 2016

	Short Term				Post Employment	Long Term	Share Based Payment[(c)]	Termination Payment		
30 June 2016	Salary & Fees $	Non Monetary $	Cash Incentives[(a)] $	Accrued Annual Leave[(b)] $	Super-annuation $	Long Service Leave $	Options and Performance Rights $	$	Total $	% Perform-ance Related
Directors										
Lee Seng Hui	85,617	-	-	-	8,134	-	-	-	**93,751**	-
A Jones	80,937	-	-	-	7,689	-	-	-	**88,626**	-
Li Shaofeng	-	-	-	-	-	-	-	-	**-**	-
R Barwick	80,937	-	-	-	7,689	-	-	-	**88,626**	-
S Bird	87,786	9,102	-	-	8,340	-	-	-	**105,228**	-
P Dougas	69,064	-	-	-	6,561	-	-	-	**75,625**	-
A Ferguson (Alt)	-	-	-	-	-	-	-	-	**-**	-
Sub-total	**404,341**	**9,102**	**-**	**-**	**38,413**	**-**	**-**	**-**	**451,856**	
Other KMP										
J Beyer	508,372	24,561	144,779	39,897	48,295	8,859	31,026	-	**805,789**	22
P Kerr	363,333	24,087	136,971	15,763	33,253	2,684	19,430	-	**595,521**	26
D Stokes	317,173	11,989	138,869	6,080	30,120	1,918	13,696	-	**519,845**	29
S de Kruijff	371,245	13,155	40,000^	-	35,245	1,474	-	-	**461,119**	9
Sub-total	**1,560,123**	**73,792**	**460,619**	**61,740**	**146,913**	**14,935**	**64,152**	**-**	**2,382,274**	
Totals	**1,964,464**	**82,894**	**460,619**	**61,740**	**185,326**	**14,935**	**64,152**	**-**	**2,834,130**	

(a) Cash incentives for Messrs Beyer and Kerr are shown net of the reversal of the Conditional Deferred Bonuses disclosed for the prior year ended 30 June 2015. These Conditional Deferred Bonuses were not paid by the Company. The gross STI cash incentives for the year ended 30 June 2016 were $268,000 for Mr Beyer and $180,000 for Mr Kerr.

(b) Annual leave has been separately categorised and is measured on an accrual basis and reflects the movement in the accrual over the twelve-month period. Any reduction in accrued leave reflects more leave taken or cashed out than that which accrued in the period.

(c) Share based payments represent the accounting expense incurred by the Company for the stated financial period, reflecting the terms of the particular Options or Performance Rights.

^ Deferred cash incentive related to the Group's Koolan Island main pit seawall insurance claim.

Loans to Key Management Personnel

There were no loans to key management personnel during the year ended 30 June 2016. Limited recourse loans totalling $1,500,828 were made to Key Management Personnel during the year ended 30 June 2017 under the terms of the Company's LSP.

Other Transactions and Balances with Key Management Personnel

There were no other transactions and balances with key management personnel during the years ended 30 June 2017 and 30 June 2016.

Company Performance

The table below shows the performance of the Group over the last 5 years:

		30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Net profit/(loss) after tax	***$'000***	26,322	86,297	(911,422)	96,353	157,342
Earnings/(loss) per share	***$/share***	0.0241	0.0791	(0.8356)	0.0884	0.1445
Closing share price	***$***	0.33	0.26	0.20	0.69	0.47

End of remuneration report.

Signed in accordance with a resolution of the Directors.

LEE SENG HUI
Chairman

Sydney, 15 August 2017

Competent Persons Statement:

Mineral Resources:

The information in this report relating to Mineral Resources for the Iron Hill and Shine deposits is based on information compiled by Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists. Ms Haren was previously a full-time employee of, and is now a consultant to, Mount Gibson Iron Limited, and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Haren consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

Ore Reserves:

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by Brett Morey, a Competent Person who is a member of the Australasian Institute of Mining and Metallurgy. Mr Morey is a full-time employee of Mount Gibson Iron Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Morey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Auditor's Independence Declaration

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Auditor's independence declaration to the Directors of Mount Gibson Iron Limited

As lead auditor for the audit of Mount Gibson Iron Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mount Gibson Iron Limited and the entities it controlled during the financial year ended 30 June 2017.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
15 August 2017

GB:EH:MGI:230

Consolidated Income Statement

For the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
CONTINUING OPERATIONS			
Sale of goods	3[a]	162,043	235,188
Interest revenue		12,113	9,667
TOTAL REVENUE		**174,156**	**244,855**
Cost of sales	4[a]	(134,545)	(213,681)
Impairment write-back/(loss) on ore inventories	10[iii]	(3,153)	3,442
GROSS PROFIT		**36,458**	**34,616**
Other income	3[b]	5,866	91,848
Impairment reversal/(impairment) of consumables inventories	10	2,479	(8,142)
Impairment of mine properties	16	-	(2,135)
Impairment of property, plant and equipment	16	-	(12,377)
Impairment reversal/(impairment) of deferred acquisition, exploration and evaluation	14	2,507	(3,037)
Exploration expenses	14	(90)	(77)
Net unrealised fair value gain/(loss)	4[c]	(137)	512
Administration and other expenses	4[d]	(21,831)	(19,903)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		**25,252**	**81,305**
Finance costs	4[b]	(1,134)	(1,760)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX		**24,118**	**79,545**
Tax benefit	5	1,481	761
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		**25,599**	**80,306**
DISCONTINUED OPERATIONS			
Profit after tax for the year from discontinued operations	31[a]	723	5,991
PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**26,322**	**86,297**
Earnings per share (cents per share)			
• basic earnings per share	25	2.41	7.91
• diluted earnings per share	25	2.40	7.91
Earnings per share (cents per share) for continuing operations			
• basic earnings per share	25	2.34	7.36
• diluted earnings per share	25	2.34	7.36

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	2017 $'000	2016 $'000
PROFIT FOR THE PERIOD AFTER TAX	**26,322**	**86,297**
OTHER COMPREHENSIVE INCOME		
Items that may be subsequently reclassified to profit or loss		
Change in fair value of cash flow hedges	341	(231)
Reclassification adjustments for gain/(loss) on cash flow hedges transferred to the Income Statement	(109)	231
Deferred income tax on cash flow hedges	-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**232**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**26,554**	**86,297**

Consolidated Balance Sheet

As at 30 June 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	48,756	43,316
Term deposits and subordinated notes	7	365,500	337,000
Financial assets held for trading	8	32,523	19,771
Trade and other receivables	9	9,528	41,546
Inventories	10	20,736	20,017
Prepayments		1,953	1,887
Derivative financial assets	11	341	231
Income tax receivable		-	50
Total Current Assets		**479,337**	**463,818**
Non-Current Assets			
Property, plant and equipment	13	5,919	8,744
Mine properties	15	10,891	-
Total Non-Current Assets		**16,810**	**8,744**
TOTAL ASSETS		**496,147**	**472,562**
LIABILITIES			
Current Liabilities			
Trade and other payables	17	31,477	36,229
Interest-bearing loans and borrowings	18	-	421
Employee benefits		2,966	2,708
Provisions	19	3,651	3,083
Total Current Liabilities		**38,094**	**42,441**
Non-Current Liabilities			
Employee benefits		334	191
Provisions	19	38,736	37,995
Total Non-Current Liabilities		**39,070**	**38,186**
TOTAL LIABILITIES		**77,164**	**80,627**
NET ASSETS		**418,983**	**391,935**
EQUITY			
Issued capital	20	568,328	568,328
Accumulated losses	22	(1,131,178)	(1,157,500)
Reserves	21	981,833	981,107
TOTAL EQUITY		**418,983**	**391,935**

Consolidated Cash Flow Statement

For the year ended 30 June 2017

	Notes	2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		167,906	245,957
Payments to suppliers and employees		(163,866)	(240,670)
Interest paid		(191)	(345)
Income tax refund received		1,532	711
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	6[b]	**5,381**	**5,653**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		11,484	9,834
Proceeds from sale of property, plant and equipment		2,586	4,530
Purchase of property, plant and equipment		(3,863)	(2,643)
Payment for term deposits and subordinated notes		(28,500)	(94,000)
Proceeds from sale of financial assets held for trading		10,344	-
Payment for financial assets held for trading		(22,863)	(19,467)
Proceeds from sale of exploration and evaluation assets		-	650
Payment for deferred exploration and evaluation expenditure		(663)	(840)
Payment for mine properties		(2,126)	-
Proceeds from seawall property insurance		34,558	51,142
NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES		**957**	**(50,794)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities		-	(2,162)
Proceeds from/(repayment of) insurance premium funding facility		(421)	317
Payment of borrowing costs		(303)	(306)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		**(724)**	**(2,151)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5,614	(47,292)
Net foreign exchange difference		(174)	(395)
Cash and cash equivalents at beginning of year		43,316	91,003
CASH AND CASH EQUIVALENTS AT END OF YEAR	6[a]	**48,756**	**43,316**

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Attributable to Equity Holders of the Parent						*Total Equity*
	Issued Capital	**Accumulated Losses**	**Share Based Payments Reserve**	**Net Unrealised Gains / (Losses) Reserve**	**Dividend Distribution Reserve**	**Other Reserves**	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 1 July 2015	**568,328**	**(1,243,797)**	**19,973**	**-**	**964,262**	**(3,192)**	**305,574**
Profit for the period	-	86,297	-	-	-	-	**86,297**
Other comprehensive income	-	-	-	-	-	-	**-**
Total comprehensive income for the year	**-**	**86,297**	**-**	**-**	**-**	**-**	**86,297**
Transactions with owners in their capacity as owners							
Share-based payments	-	-	64	-	-	-	**64**
At 30 June 2016	**568,328**	**(1,157,500)**	**20,037**	**-**	**964,262**	**(3,192)**	**391,935**
At 1 July 2016	**568,328**	**(1,157,500)**	**20,037**	**-**	**964,262**	**(3,192)**	**391,935**
Profit for the period		26,322	-	-	-	-	**26,322**
Other comprehensive income	-	-	-	232	-	-	**232**
Total comprehensive income for the year	**-**	**26,322**	**-**	**232**	**-**	**-**	**26,554**
Transactions with owners in their capacity as owners							
Share-based payments	-	-	494	-	-	-	**494**
At 30 June 2017	**568,328**	**(1,131,178)**	**20,531**	**232**	**964,262**	**(3,192)**	**418,983**

Notes to the Consolidated Financial Report

For the year ended 30 June 2017

1. Introduction

(a) Corporate information

The consolidated financial statements of the Group, comprising the Company and the entities that it controlled during the year ended 30 June 2017, were authorised for issue in accordance with a resolution of the Directors on 15 August 2017.

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

The nature of operations and principal activities of the Group are the mining of hematite iron ore deposits at Koolan Island and Extension Hill, the exploration and development of hematite deposits in Western Australia and elsewhere, treasury management and the pursuit of mineral resources acquisitions and investments.

The address of the registered office is Level 1, 2 Kings Park Road, West Perth, Western Australia, 6005, Australia.

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and financial assets held for trading that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated, under the option available to the Company under Australian Securities and Investment Commission ("**ASIC**") (Rounding in Financial/Directors' Report) Instrument 2016/191. The Company is an entity to which the instrument applies.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entities.

The financial statements of controlled entities are prepared for the same reporting period as the 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.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

Notes to the Consolidated Financial Report (continued)

2. Other Significant Accounting Policies

(a) Foreign currency

The functional currency of the Company and its controlled entities is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the income statement in the consolidated financial report.

(b) Other taxes

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 receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement 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.

(c) Other accounting policies

Other significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

(d) Key accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Significant judgements and estimates which are material to the financial statements are provided throughout the notes to the financial statements.

Other significant accounting judgements, estimates and assumptions not provided in the notes to the financial statements are as follows:

Determination of mineral resources and ore reserves

The Group estimates its mineral resources and ore reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 (the "**JORC Code**"). The information on mineral resources and ore reserves was prepared by or under the supervision of Competent Persons as defined in the JORC Code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC Code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the ore reserves being restated. Such changes in the ore reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping costs and provisions for decommissioning and restoration.

Notes to the Consolidated Financial Report (continued)

	Notes	2017 $'000	2016 $'000
3. Revenue and Other Income			
[a] Revenue			
Sale of ore – continuing operations		161,882	234,806
Realised gain on foreign exchange hedges		161	382
		162,043	235,188
[b] Other income			
Net realised gain on foreign exchange transactions		-	603
Net gain on disposal of property, plant and equipment		2,201	3,486
Net gain on sale of financial assets held for trading		246	23
Arbitration settlement income		-	25
Insurance proceeds – seawall property damage	[i]	-	86,000
Insurance proceeds – other		9	117
Other income		3,410	1,594
		5,866	91,848

[i] In the 2015/16 financial year, the Company reached agreement with its insurers for a cash settlement of $86,000,000 for the property damage component of its insurance claim relating to the failure of the Koolan Island Main Pit seawall in late 2014. The cash settlement amount comprised $300,000 received in the 2014/15 year, $51,142,000 received in the 2015/16 year and the remaining balance of A$34,558,000 received in the 2016/17 year.

Subsequent to 30 June 2017, the Company reached final agreement with 14 insurers, representing 92.5% of the Company's underwriting cover for the business interruption component of the insurance claim. Proceeds of the cash settlement amounting to $64,288,000 were received and recognised after balance date. Negotiations will continue separately with one further insurer representing the remaining 7.5% of the Company's business interruption coverage.

Recognition and measurement

Revenue

Revenue is recognised and measured at the fair value of consideration received or receivable 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

The Group generates a significant proportion of revenue from the sale of iron ore. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

	Notes	2017 $'000	2016 $'000
4. Expenses			
[a] Cost of sales – continuing operations			
Mining and site administration costs		31,702	69,834
Depreciation – mining and site administration		3,780	6,545
Amortisation of mine properties	15	402	1,070
Crushing costs		4,135	11,174
Depreciation – crushing		762	1,212
Transport costs		70,952	90,686
Depreciation – transport		399	1,410
Port costs		15,215	17,697
Depreciation – port		97	2,055
Royalties		12,078	18,520
Net ore inventory movement		(2,571)	(4,377)
Rehabilitation revised estimate adjustments		(2,406)	(2,145)
		134,545	213,681

Notes to the Consolidated Financial Report (continued)

	Notes	2017 $'000	2016 $'000
4. Expenses (Continued)			
[b] Finance costs			
Finance charges on banking facilities		495	661
Finance charges payable under finance leases		-	82
		495	743
Non-cash interest accretion on rehabilitation provision		639	1,017
		1,134	1,760
[c] Net unrealised fair value gain/(loss)			
Foreign exchange derivatives marked-to-market gain/(loss)		(123)	231
Financial assets held for trading marked-to-market gain/(loss)		(14)	281
		(137)	512
[d] Administration and other expenses include:			
Depreciation		593	700
Share-based payments expense	24	494	64
Impairment of debtors		3,142	1,278
Net realised loss on foreign exchange transactions		39	-
Net unrealised loss on foreign exchange balances		174	395
Koolan seawall insurance claim and related site works expenses		502	1,300
Insurance premiums (net of refunds)		26	1,666
Business development expenses		2,281	1,852
Koolan restart feasibility study		2,124	-
[e] Cost of sales and Administration and other expenses above include:			
Salaries, wages expense and other employee benefits		23,549	29,789
Operating lease rental – minimum lease payments		1,667	1,476

Recognition and measurement

Employee benefits expense

Wages, salaries, sick leave and other employee benefits

Liabilities for wages and salaries, including non-monetary benefits and other employee benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Annual leave and long service leave

The Group expects its annual leave benefits to be settled wholly within 12 months of each reporting date. They are measured at the amount expected to be paid when the liabilities are settled.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to future wage and salary levels, experience of employee departures, and periods of service. Future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

The policy relating to share-based payments is set out in note 24.

Superannuation

Contributions made by the Group to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

Borrowing costs

Borrowing costs are recognised as an expense when incurred except when borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

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 in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Depreciation and amortisation

Refer to notes 13 and 15 for details on depreciation and amortisation.

Impairment

Impairment expenses are recognised to the extent that the carrying amounts of assets exceed their recoverable amounts. Refer to note 16 for further details on impairment.

Notes to the Consolidated Financial Report (continued)

	2017 $'000	2016 $'000

5. Taxation

Major components of tax benefit for the years ended 30 June 2017 and 2016 are:

	2017 $'000	2016 $'000
Income Statement		
Current tax		
Current income tax charge	-	-
Refund in respect of previous return	(1,481)	(761)
Adjustments in respect of current income tax of previous year	-	-
Deferred tax		
Relating to origination and reversal of temporary differences:		
Income tax	-	-
Tax benefit reported in Income Statement	**(1,481)**	**(761)**
Tax benefit relating to continuing operations	(1,481)	(761)
Tax benefit relating to discontinued operations	-	-
	(1,481)	**(761)**
Statement of Changes in Equity		
Deferred income tax		
Remeasurement of foreign exchange contracts	-	-
Deferred income tax (benefit)/liability reported in equity	-	-

Reconciliation of tax benefit

A reconciliation of tax benefit applicable to accounting profit before tax at the statutory income tax rate to tax expense at the Group's effective tax rate for the years ended 30 June 2017 and 2016 is as follows:

	2017 $'000	2016 $'000
Accounting profit before tax	24,841	85,536
• At the statutory income tax rate of 30% (2016: 30%)	7,452	25,661
• Expenditure not allowed for income tax purposes	266	214
• Recognition of previously unrecognised deferred tax assets	(8,548)	(36,016)
• Adjustments in respect of current income tax of previous year	(654)	-
• Adjustments in respect of deferred tax	-	7,601
• Other	3	1,779
Tax benefit	**(1,481)**	**(761)**
Effective tax rate	(6.0%)	(0.9%)
Tax benefit reported in Income Statement	**(1,481)**	**(761)**

Notes to the Consolidated Financial Report (continued)

5. Taxation (Continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED						
Accrued liabilities	(1,743)	(547)	-	-	(1,743)	(547)
Capital raising costs	(1,015)	(294)	-	-	(1,015)	(294)
Deferred expense	-	(445)	-	-	-	(445)
Deferred income	(1)	-	-	783	(1)	783
Donations	(10)	-	-	-	(10)	-
Foreign exchange contracts	(89)	(49)	-	-	(89)	(49)
Inventory	(1,211)	(2,745)	-	-	(1,211)	(2,745)
Prepaid expenditure	-	-	53	23	53	23
Fixed assets, mine properties and exploration expenditure	(23,545)	(35,793)	-	-	(23,545)	(35,793)
Provisions	(15,416)	(16,429)	-	-	(15,416)	(16,429)
Borrowing cost	(298)	(510)	-	-	(298)	(510)
Research and development carried forward tax offset	(1,063)	-	-	-	(1,063)	-
Tax losses	(69,818)	(66,698)	-	-	(69,818)	(66,698)
Tax (assets)/liabilities	(114,209)	(123,510)	53	806	(114,156)	(122,704)
Derecognition of deferred tax asset	114,209	123,510	(53)	(806)	114,156	122,704
Net tax (assets)/liabilities	**-**	**-**	**-**	**-**	**-**	**-**

	Balance 1 July 2016 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2017 $'000
Movement in temporary differences during the financial year ended 30 June 2017				
Accrued liabilities	(547)	(1,196)	-	(1,743)
Capital raising costs	(294)	(721)	-	(1,015)
Deferred expense	(445)	445	-	-
Deferred income	783	(784)	-	(1)
Donations	-	(10)	-	(10)
Foreign exchange contracts	(49)	(40)	-	(89)
Inventory	(2,745)	1,534	-	(1,211)
Prepaid expenditure	23	30	-	53
Fixed assets, mine properties and exploration expenditure	(35,793)	12,248	-	(23,545)
Provisions	(16,429)	1,013	-	(15,416)
Borrowing cost	(510)	212	-	(298)
Research and development carried forward tax offset	-	(1,063)	-	(1,063)
Tax losses	(66,698)	(3,120)	-	(69,818)
Derecognition of deferred tax asset	122,704	(8,548)	-	114,156
	-	-	-	-

Notes to the Consolidated Financial Report (continued)

5. Taxation (Continued)

	Balance 1 July 2015 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 2016 $'000
Movement in temporary differences during the financial year ended 30 June 2016				
Accrued liabilities	(7,299)	6,752	-	(547)
Capital raising costs	(4)	(290)	-	(294)
Deferred expense	-	(445)	-	(445)
Deferred income	592	191	-	783
Foreign exchange contracts	(300)	251	-	(49)
Inventory	(2,891)	146	-	(2,745)
Prepaid expenditure	7	16	-	23
Fixed assets, mine properties and exploration expenditure	(70,748)	34,955	-	(35,793)
Provisions	(19,215)	2,786	-	(16,429)
Borrowing cost	(797)	287	-	(510)
Tax losses	(58,065)	(8,633)	-	(66,698)
Derecognition of deferred tax asset	158,720	(36,016)	-	122,704
	-	**-**	**-**	**-**

	2017 $'000	2016 $'000
Unrecognised deferred tax assets (calculated at 30%)		
Deferred tax assets have not been recognised in respect of the following items:		
Temporary differences	44,338	56,006
Tax losses	69,818	66,698
	114,156	122,704

Notes to the Consolidated Financial Report (continued)

5. Taxation (Continued)

Recognition and measurement

Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Tax consolidation

Mount Gibson and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the Tax Consolidation Regime. Using the Group allocation approach, each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity in addition to its own current and deferred tax amounts. The current tax liability of each group entity is then subsequently assumed by the parent entity.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed below.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement, the funding of tax within the Group is based on accounting profit. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under the accounting policy, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Key estimate: recoverability of potential deferred tax assets

The Group recognises deferred tax assets in respect of tax losses to the extent that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred tax assets recognised, which would in turn impact future financial results.

Notes to the Consolidated Financial Report (continued)

	2017 $'000	2016 $'000

6. Cash and Cash Equivalents

[a] Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

	2017 $'000	2016 $'000
Cash at bank and on hand	33,756	43,316
Short-term deposits	15,000	-
	48,756	**43,316**

Cash at bank earns interest at floating daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at short-term deposit rates.

Recognition and measurement

Cash and short-term deposits in the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity period of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if any.

[b] Reconciliation of the net profit after tax to the net cash flows from operations

	2017 $'000	2016 $'000
Net profit after tax	26,322	86,297
Adjustments to reconcile profit after tax to net cash flows:		
Depreciation of non-current assets	5,674	11,971
Amortisation of other mine properties	402	1,070
Net (gain) on disposal of property, plant and equipment	(2,201)	(3,486)
Interest received	(12,113)	(9,667)
Exploration expenses written off	90	77
Share based payments	494	64
Borrowing costs	304	398
Net ore inventory movement	2,240	1,005
Impairment of debtors	3,142	1,278
Impairment/(write-back) and obsolescence of consumables inventories	(2,479)	8,122
Impairment of ore inventories	(225)	(10,258)
Impairment of mine properties	-	2,135
Impairment of property, plant and equipment	-	12,377
Impairment/(write-back) of deferred acquisition, exploration and evaluation	(2,507)	3,037
Unrealised loss on foreign exchange balances	174	395
Unrealised marked-to-market (gain)/loss on foreign exchange derivatives	123	(231)
Unrealised marked-to-market (gain)/loss on financial assets held for trading	14	(281)
Realised gain on sale of financial assets held for trading	(246)	(23)
Proceeds from seawall property insurance	-	(86,000)
Capitalised expenses	-	(730)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(5,053)	7,087
(Increase)/decrease in inventory	(255)	2,193
Decrease in prepayments and deposits	492	1,417
(Increase)/decrease in income tax receivable	50	(50)
(Decrease) in trade and other payables	(8,185)	(13,135)
Increase/(decrease) in employee benefits	401	(1,267)
(Decrease) in provisions	(1,277)	(8,142)
Net Cash Flow from Operating Activities	**5,381**	**5,653**

[c] Non-cash financing activities

The Group did not acquire property, plant and equipment by means of finance leases or hire purchase agreements during the financial year ended 30 June 2017 (2016: nil). The Group disposed of items of property, plant and equipment with an aggregate fair value of $nil (2016: $99,120) which were originally financed by means of hire purchase agreements.

Notes to the Consolidated Financial Report (continued)

	Notes	2017 $'000	2016 $'000

7. Term Deposits and Subordinated Notes

	Notes	2017 $'000	2016 $'000
Current			
Term deposits – receivables	[i]	268,500	250,000
Subordinated notes at fair value – available for sale investment	[ii]	97,000	87,000
		365,500	**337,000**

[i] Term deposits are made for varying periods of between three and twelve months depending on the term cash requirements of the Group, and earn interest at market term deposit rates.

[ii] Subordinated notes comprise tradeable floating interest rate instruments with maturities of up to ten years. These instruments are held in order to supplement the Group's treasury returns, and the Group intends and is able to realise these instruments as and when the Group's cash needs require.

Term deposits and subordinated notes are with various financial institutions with credit ratings from BBB+ to AA- (S&P) to minimise the risk of default of counterparties.

Recognition and measurement

Term deposits and subordinated notes are classified as receivables and are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

8. Financial Assets Held for Trading

	2017 $'000	2016 $'000
Current		
Tradeable corporate bonds at fair value	31,217	19,771
Share investments at fair value	1,306	-
	32,523	**19,771**

Financial assets held for trading comprise corporate bonds and equity securities which are traded in active markets. The portfolio of bond investments is managed by a professional funds management entity, and Mount Gibson is able to vary or terminate the portfolio management mandate at any time, with applicable notice periods.

Recognition and measurement

Financial assets held for trading are acquired principally for the purpose of selling or repurchasing in the short term. These are managed as part of a portfolio of identified financial instruments and are measured at fair value through the income statement. Gains or losses from the sale of the financial assets are recognised in the income statement. Interest earned at market bond rates is recognised in the income statement on an effective yield basis.

9. Trade and Other Receivables

	Notes	2017 $'000	2016 $'000
Current			
Trade debtors	[a][i]	9,176	5,404
Allowance for impairment	[b]	(5,384)	(2,242)
		3,792	3,162
Sundry debtors	[a][ii]	4,486	37,120
Other receivables		1,250	1,264
		9,528	**41,546**

[a] Terms and conditions

Terms and conditions relating to the above financial instruments:

[i] Details of terms and conditions of trade debtors and credit sales are set out in the "recognition and measurement" note below.

[ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

Notes to the Consolidated Financial Report (continued)

9. Trade and Other Receivables (Continued)

[b] Impaired or past due financial assets

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. The table below reconciles the allowance for impairment loss for the years ended 30 June 2017 and 2016.

	2017 $'000	2016 $'000
Balance at the beginning of the year	2,242	964
Impairment loss	3,142	1,278
Balance at the end of the year	5,384	2,242

At 30 June 2017, trade debtors of $789,000 (2016: $52,000) in the Group were past due but not impaired. These relate to a number of customers for whom there is no recent history of default or other indicators of impairment. At 15 August 2017, $347,000 of this amount remains outstanding.

With respect to trade debtors that are neither impaired nor past due, there are no indications as at the reporting date that the relevant debtors will not meet their payment obligations.

	2017 $'000	2016 $'000
The ageing of trade debtors past due but not impaired is as follows:		
Less than 30 days overdue	-	-
Between 30 and 60 days overdue	413	28
Between 60 and 90 days overdue	245	23
Greater than 90 days overdue	131	1
	789	52
Trade debtors not impaired and not past due	3,003	3,110
	3,792	3,162

Recognition and measurement

Trade receivables

Trade receivables are recognised and carried at amortised cost less any allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect the debts. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency and default in payment. Any impairment is recognised in the income statement.

The vast majority of sales revenue is invoiced and received in US dollars (US$). The balance is invoiced and received in Australian dollars (A$).

Generally, on presentation of shiploading documents and the provisional invoice, the customer settles 90-95% of the provisional sales invoice value within 10 days of receipt of shiploading documents and provisional invoice, and the remaining 5-10% is settled within 30 days of presentation of the final invoice. The final value is subject to adjustments for final pricing and other minor adjustments based on the final analyses of weight, chemical and physical composition, and moisture content.

Other receivables

Other receivables are recorded at amortised cost, using the effective interest rate method, less any impairment. Interest is recognised by applying the effective interest rate method.

Notes to the Consolidated Financial Report (continued)

10. Inventories

	Notes	2017 $'000	2016 $'000
Consumables – at cost		12,813	19,445
Allowance for obsolescence and impairment of consumables inventories	[i],[ii]	(7,604)	(16,970)
		5,209	2,475
Ore – at cost		18,680	27,992
Allowance for impairment of ore inventories	[iii]	(3,153)	(10,450)
At net realisable value		15,527	17,542
		20,736	**20,017**

[i] During the year, the Group wrote back $2,613,000 of previously recorded stock obsolescence allowance to the income statement. This relates primarily to consumables inventories that are now considered not obsolete as a result of the Koolan Island restart project. Additionally, obsolete consumables inventories totalling $5,618,000 which had been fully provided for in prior periods, were written off against the associated provision.

[ii] Consumables inventories held at Koolan Island and Extension Hill which are not considered obsolete have been assessed and written down to their recoverable values. In determining the recoverable value, factors such as current market pricing from suppliers, current location and condition have been considered. A net impairment loss of $134,000 was recognised during the year (2016: $8,111,000). Additionally, consumables inventories totalling $1,269,000 which had been impaired in prior periods, were written off against the associated provision.

[iii] At 30 June 2017, the Group assessed the carrying values of ore inventories stockpiled at each of the three mine sites. Assumptions used in the assessment include prevailing and anticipated iron ore prices and exchange rates, ore specifications, estimated costs to make the ore inventories available for sale, and associated sales and shipping freight costs.

Based on these assumptions, the following impairment write-backs/(loss) on ore inventories were recorded during the financial period:

	2017 $'000	2016 $'000
Tallering Peak – discontinued operation	3,378	6,816
Extension Hill	(3,153)	-
Koolan Island	-	3,442
Total write-backs on impairment	**225**	**10,258**

Recognition and measurement

Inventories are 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.

Consumable materials for plant and equipment are recognised as inventory. Consumable stocks are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Key estimate

Inventories are written down to net realisable value if considered damaged, have become wholly or partially obsolete, or if their selling prices have declined. A new assessment is made of net realisable value in each subsequent period.

11. Derivative Financial Assets

	Notes	2017 $'000	2016 $'000
Current			
Foreign currency option contracts	34[b][i]	341	231
		341	**231**

Refer note 34 for details on derivative financial instruments.

Notes to the Consolidated Financial Report (continued)

12. Interest in Subsidiaries

Name	Country of Incorporation	Percentage of Equity Interest Held by the Group	
		2017	2016
		%	%
Mount Gibson Mining Limited	Australia	100	100
Geraldton Bulk Handling Pty Ltd	Australia	100	100
Gibson Minerals Ltd (incorporated 18 November 2016)	Australia	100	-
Aztec Resources Limited	Australia	100	100
• Koolan Shipping Pty Ltd	Australia	100	100
• Brockman Minerals Pty Ltd	Australia	100	100
• Koolan Iron Ore Pty Ltd	Australia	100	100
•• KIO SPV Pty Ltd	Australia	100	100

Entities subject to Class Order relief

Pursuant to ASIC Instrument 2016/785, relief has been granted to Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of financial reports. As a condition of the Class Order, Mount Gibson Iron Limited, Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd ("**Closed Group**") entered into a Deed of Cross Guarantee on 1 May 2009. The effect of this deed is that Mount Gibson Iron Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Mount Gibson Iron Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The Consolidated Income Statement and Balance Sheet of the Closed Group are set out below:

Consolidated Income Statement of the Closed Group

	2017 $'000	2016 $'000
CONTINUING OPERATIONS		
Sale of goods	162,043	235,188
Interest revenue	12,113	9,667
TOTAL REVENUE	174,156	244,855
Cost of sales	(119,042)	(195,448)
Impairment of ore inventories	(3,153)	3,442
GROSS PROFIT	51,961	52,849
Other income	5,760	91,783
Impairment reversal/(impairment) of consumables inventories	2,497	(7,750)
Impairment of mine properties	-	(2,135)
Impairment of property, plant and equipment	-	(7,955)
Impairment reversal/(impairment) of deferred acquisition, exploration and evaluation	2,507	(3,037)
Impairment of non-current other receivables	(12,204)	(150,808)
Net unrealised marked-to-market gain/(loss)	(296)	512
Exploration expenses	(90)	(77)
Administration and other expenses	(21,824)	(19,906)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS	28,311	(46,524)
Finance costs	(1,134)	(1,760)
PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX	27,177	(48,284)
Tax expense	(1,578)	(5,496)
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	25,599	(53,780)
DISCONTINUED OPERATIONS		
Profit after tax for the year from discontinued operations	723	5,991
PROFIT/(LOSS) AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY	26,322	(47,789)

Notes to the Consolidated Financial Report (continued)

Consolidated Balance Sheet of the Closed Group

	Notes	2017 $'000	2016 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		48,612	42,419
Term deposits		365,500	337,000
Financial assets held for trading		31,217	19,771
Trade and other receivables		9,380	41,176
Inventories		20,592	19,940
Prepayments		1,815	1,742
Derivative financial assets		341	231
Income tax receivable		-	50
TOTAL CURRENT ASSETS		**477,457**	**462,329**
NON-CURRENT ASSETS			
Property, plant and equipment		5,679	8,595
Mine properties		10,891	-
TOTAL NON-CURRENT ASSETS		**16,570**	**8,595**
TOTAL ASSETS		**494,027**	**470, 924**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		29,532	31,062
Interest-bearing loans and borrowings		-	421
Employee benefits		2,778	2,546
Provisions		3,651	3,083
TOTAL CURRENT LIABILITIES		**35,961**	**37,112**
NON-CURRENT LIABILITIES			
Other payables		38	3,701
Employee benefits		309	181
Provisions		38,736	37,995
TOTAL NON-CURRENT LIABILITIES		**39,083**	**41,877**
TOTAL LIABILITIES		**75,044**	**78,989**
NET ASSETS		**418,983**	**391,935**
EQUITY			
Issued capital		568,328	568,328
Accumulated losses	[i]	(1,131,178)	(1,157,500)
Reserves		981,833	981,107
TOTAL EQUITY		**418,983**	**391,935**

[i] **Accumulated losses**		
Balance at the beginning of the year	(1,157,500)	(1,109,711)
Net profit/(loss) attributable to members of the closed group	26,322	(47,789)
Balance at the end of the year	(1,131,178)	(1,157,500)

Notes to the Consolidated Financial Report (continued)

13. Property, Plant and Equipment

	Land		Plant and equipment		Plant and equipment under lease		Buildings		Capital works in progress		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount at cost	649	654	273,180	293,444	24,427	57,050	139,926	138,708	119	2,166	438,301	492,022
Accumulated depreciation and impairment	(549)	(549)	(268,387)	(284,934)	(24,419)	(57,022)	(139,027)	(138,607)	-	(2,166)	(432,382)	(483,278)
Net carrying amount	**100**	**105**	**4,793**	**8,510**	**8**	**28**	**899**	**101**	**119**	**-**	**5,919**	**8,744**
Reconciliation												
Carrying amount at the beginning of the year	105	135	8,510	23,840	28	1,071	101	5,366	-	1,082	8,744	31,494
Additions	-	-	2,523	515	-	-	1,213	386	119	1,679	3,855	2,580
Transfers	-	-	-	757	-	-	-	60	-	(817)	-	-
Disposals	(5)	-	(372)	(883)	-	(99)	-	-	-	-	(377)	(982)
Depreciation expense – continuing operations	-	-	(5,205)	(9,534)	(17)	(567)	(409)	(1,821)	-	-	(5,631)	(11,922)
Depreciation expense – discontinued operations	-	-	(43)	(49)	-	-	-	-	-	-	(43)	(49)
Depreciation capitalised	-	-	(620)	-	(3)	-	(6)	-	-	-	(629)	-
Impairment loss	-	(30)	-	(6,136)	-	(377)	-	(3,890)	-	(1,944)	-	(12,377)
Carrying amount at the end of the year	**100**	**105**	**4,793**	**8,510**	**8**	**28**	**899**	**101**	**119**	**-**	**5,919**	**8,744**
Assets pledged as security	100	105	4,793	8,510	8	28	899	101	119	-	5,919	8,744

Refer note 16 for details of impairment and note 18 for details of security arrangements.

Notes to the Consolidated Financial Report (continued)

13. Property, Plant and Equipment (Continued)

Recognition and measurement

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation and amortisation

The cost of owned property, plant and equipment directly engaged in mining operations 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. Plant and equipment under hire purchase or finance lease directly engaged in mining operations is written down to its residual value over the lesser of the hire purchase or finance lease term or useful life. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	5 - 20 years
Motor vehicles	4 - 5 years
Office equipment	3 - 5 years
Leasehold improvements	Shorter of lease term and useful life of 5 – 10 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Refer note 16 for further details on impairment.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Key judgement, estimates and assumptions

Units of production method of depreciation and amortisation

The Group applies the units of production method of depreciation and amortisation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available ore reserves, mineral resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining ore reserves, mineral resources and production capacity include the Group's history of converting mineral resources to ore reserves and the relevant timeframes, the complexity of metallurgy, markets and future developments. The Group uses economically recoverable mineral resources (comprising proven and probable ore reserves) to depreciate assets on a units of production basis. However, where a mineral property has been acquired and an amount has been attributed to the fair value of mineral resources not yet designated as ore reserves, the additional mineral resources may be taken into account. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value-in-use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value-in-use, future cash flow forecasts for each cash generating unit (i.e. each mine) are prepared utilising management's latest estimates of mine life, mineral resource and ore reserve recovery, operating and development costs, royalties and taxation, and other relevant cash inflows and outflows. Cash flow scenarios for a range of commodity prices and foreign exchange rates are assessed using internal and external market forecasts, and the present value of the forecast cash flows is determined utilising a discount rate based on industry weighted average cost of capital.

The Group's cash flows are most sensitive to movements in iron ore prices, the discount rate and key operating costs. Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment assessment or losses recognised, if any, which could in turn impact future financial results. Refer note 16 for further details on impairment.

Notes to the Consolidated Financial Report (continued)

14. Deferred Acquisition, Exploration and Evaluation Costs

	Notes	2017 $'000	2016 $'000
Deferred acquisition, exploration and evaluation – at cost		18,162	20,669
Allowance for impairment		(18,162)	(20,669)
		-	-
Reconciliation			
Carrying amount at beginning of the year		-	2,924
Additions		1,010	840
Transferred to mine properties	15	(3,427)	-
Net impairment reversal/(loss)	[i]	2,507	(3,037)
Disposals		-	(650)
Exploration expenditure written off		(90)	(77)
Carrying amount at the end of the year		-	-

[i] On 9 February 2017, the Company announced it had received final statutory approvals for development of the Iron Hill deposit and, subsequently, commenced mining operations. Accordingly, the carrying amount for the Iron Hill Project of $2,966,000 which was fully impaired at 30 June 2016 was written back during the year ended 30 June 2017.

Also during the year, additional transaction and other holding costs totalling $459,000 were incurred on the Shine Project. An assessment of the Shine Project indicated that the carrying amount of the asset was unlikely to be recovered from its development or sale at current iron ore prices and exchange rates and accordingly, the carrying amount for the Shine Project was fully impaired as at 30 June 2017.

Recognition and measurement

Acquisition costs

Exploration and evaluation costs arising from acquisitions 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.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas, the value of the area of interest is written off to the income statement or provided against.

Key estimates and assumptions : impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of mineral resources and ore reserves, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

Notes to the Consolidated Financial Report (continued)

	2017 $'000	2016 $'000

15. Mine Properties

	2017 $'000	2016 $'000
Gross carrying amount at cost	1,548,630	1,537,337
Accumulated amortisation and impairment	(1,537,739)	(1,537,337)
	10,891	**-**

	Koolan Island		Extension Hill		Total	
	2017	2016	2017	2016	2017	2016
Reconciliation	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Deferred waste						
Carrying amount at the beginning of the period	-	-	-	-	-	-
Deferred waste capitalised	-	-	-	-	-	-
Amortisation expensed	-	-	-	-	-	-
Impairment loss (note 16)	-	-	-	-	-	-
Carrying amount at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**
Other mine properties						
Carrying amount at the beginning of the period	-	-	-	3,205	-	3,205
Additions	4,988	-	411	-	5,399	-
Mine rehabilitation – revised estimate adjustment	-	-	2,467	-	2,467	-
Transferred from deferred acquisition, exploration and evaluation costs (note 14)	-	-	3,427	-	3,427	-
Amortisation expensed	-	-	(402)	(1,070)	(402)	(1,070)
Impairment loss (note 16)	-	-	-	(2,135)	-	(2,135)
Carrying amount at the end of the period	**4,988**	**-**	**5,903**	**-**	**10,891**	**-**
Net carrying amount	**4,988**	**-**	**5,903**	**-**	**10,891**	**-**

The security pledged for financing facilities includes mining mortgages over the mining tenements and contractual rights to mine hematite deposits owned by the Group (refer note 18).

Notes to the Consolidated Financial Report (continued)

15. Mine Properties (Continued)

Recognition and measurement

Deferred stripping

As part of its mining operations, the Group incurs mining stripping (waste removal) costs both during the development and production phase of its operations.

When stripping costs are incurred in the development phase of a mine before the production phase commences (development stripping), such expenditure is capitalised as part of the cost of constructing the mine and subsequently amortised over its useful life using a units of production method, in accordance with the policy applicable to mine properties. The capitalisation of development stripping costs ceases when the mine or relevant component thereof is commissioned and ready for use as intended by management.

Waste development costs incurred in the production phase creates two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and the benefit is improved access to ore to be mined in the future, the costs are recognised as a stripping activity asset within mine properties.

If the costs of the inventory produced and the stripping asset are not separately identifiable, the allocation is undertaken based on the waste-to-ore stripping ratio for the particular ore component concerned. If mining of waste in a period occurs in excess of the expected life-of-component waste-to-ore strip ratio, the excess is recognised as part of the stripping asset. Where mining occurs at or below the expected life-of-component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

Amortisation is provided on the units-of-production method over the life of the identified orebody component. 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).

Other mine properties

Other mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Group in relation to areas of interest in which the mining of mineral resources 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 over the life of the mine, with separate calculations being made for each mineral resource. 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).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment expenses are recognised to the extent that the carrying amount of the mine properties asset exceeds its estimated recoverable amount. Refer to note 16 for further details on impairment.

Key judgement and estimate

Deferred waste

Significant judgement is required in determining the waste capitalisation ratio for each component of the mine. Factors that are considered include:

- Any proposed changes in the design of the mine;
- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Identifiable components of orebody;
- Future production levels;
- Impacts of regulatory obligations and taxation legislation;
- Future commodity prices; and
- Future cash costs of production.

Impairment of capitalised mine development expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of mineral resources and ore reserves, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

The Group regularly reviews the carrying values of its mine development assets in the context of internal and external consensus forecasts for commodity prices and foreign exchange rates, with the application of appropriate discount rates for the assets concerned.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made. Capitalised mine development expenditure is assessed for recoverability along with property, plant and equipment as described below.

16. Impairment of Assets

The Group reviews the carrying value of the assets of each Cash Generating Unit ("**CGU**") at each balance date. During the year ended 30 June 2017, the following material events occurred which were considered potential indicators of impairment or reversals thereof:

- as at 30 June 2017, the market capitalisation of the Group was below the book value of its equity;
- the benchmark price of iron ore (in CFR terms for delivery in northern China) commenced the year at US$55 per dry metric tonne (**dmt**) and, after being stable for much of the first half of the year, increased to above US$90/dmt early in the second half before falling substantially to under US$55/dmt and finishing the year at US$63/dmt;
- the Group ceased mining in the Extension Hill open pit and restricted activities to the processing and sale of low grade stockpiled material while awaiting the receipt of statutory approvals for commencement of mining in the Iron Hill open pit, with these approvals received in the second half of the year; and
- the Group in April 2017 made a decision to rebuild the Koolan Island main pit seawall and recommence operations in due course.

Accordingly, the Group has performed an impairment assessment of both the Koolan Island and Extension Hill CGUs. As both of these CGUs have previously been fully impaired, the assessment focused on the potential for any reversal of impairment recorded in prior periods. Based on this assessment:

(i) $2,966,000 representing the carrying amount of the previously impaired Iron Hill project which forms part of the Extension Hill CGU was reversed (note 14). No amounts previously impaired relating to the Extension Hill CGU are available for reversal.
(ii) No impairment expenses or reversals have been recognised during the reporting period for the Koolan Island CGU.

Details of the impairments/(write-backs) recognised are tabulated below:

	2017 $'000	2016 $'000
Koolan Island	-	2,893
Extension Hill	(2,966)	14,585
Total impairment loss/(write-back) of non-current assets	**(2,966)**	**17,478**

The above impairment values have been allocated proportionately to each CGU's non-current assets as follows:

	Koolan Island		Extension Hill		Total	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deferred acquisition, exploration and evaluation costs (Iron Hill)	-	-	(2,966)	2,966	(2,966)	2,966
Other mine properties	-	-	-	2,135	-	2,135
Property, plant and equipment	-	2,893	-	9,484	-	12,377
Total impairment/(write-back) of non-current assets	**-**	**2,893**	**(2,966)**	**14,585**	**(2,966)**	**17,478**

The Group assessed the recoverable amount of the Extension Hill and Koolan Island CGUs as at 30 June 2017 using the Fair Value Less Costs to Dispose ("**FVLCD**") approach. The FVLCD is assessed as the present value of the future cash flows expected to be derived from the operation, utilising the following key assumptions for each CGU:

- Cashflow forecasts were made based on recent actual performance, budgets and anticipated revenues and estimated operating and capital costs over the remaining life of the mine;
- Discount rate of 12% (nominal, before and after tax);
- Market consensus iron ore price forecasts for the 62% Fe benchmark fines CFR prices (northern China), expressed in real 2017 terms, of US$55/dmt in the first year, approximately US$45/dmt in the following three years, and US$49/dmt thereafter, at an exchange rate of A$1.00/US$0.75, with sensitivities undertaken for a range of these inputs; and
- Revenue and cost inflation estimates of 2.0% per year.

Notes to the Consolidated Financial Report (continued)

16. Impairment of Assets (Continued)

Recognition and measurement

Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value-in-use. Recoverable amount is determined for an individual asset, unless the asset's value-in-use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In allocating an impairment loss, the carrying amount of an individual asset is not taken below the highest of:

(a) Its fair value less costs of disposal (if measurable); and
(b) Its value-in-use (if determinable).

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only where there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

17. Trade and Other Payables

	Notes	2017 $'000	2016 $'000
Current			
Trade creditors	[i]	10,102	13,734
Accruals and other payables	[i]	21,375	22,495
		31,477	**36,229**

[i] Current trade creditors and other payables are non-interest bearing and are normally settled on 30 day terms.

Recognition and measurement

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

	Notes	2017 $'000	2016 $'000

18. Interest-Bearing Loans and Borrowings

	Notes	2017 $'000	2016 $'000
Current			
Insurance premium funding facility	[a]	-	421
		-	**421**

Financing facilities available

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

	Notes	2017 $'000	2016 $'000
Total facilities:			
• Insurance premium funding facility	[a]	-	421
• Performance bonding facility	[b]	20,000	55,000
		20,000	**55,421**
Facilities used at reporting date:			
• Insurance premium funding facility		-	421
• Performance bonding facility		11,608	25,829
		11,608	**26,250**
Facilities unused at reporting date:			
• Insurance premium funding facility		-	-
• Performance bonding facility		8,392	29,171
		8,392	**29,171**

Terms and conditions relating to the above financial facilities:

[a] **Insurance Premium Funding Facility**

Insurance premium arrangements were entered into by the Group in the 2015/16 reporting period to fund its annual insurance premiums. Interest was charged at 1.86% pa. The final instalment of the loan was fully paid in July 2016. The Company did not renew the funding facility in the 2016/17 reporting period and accordingly there is no liability as at balance date.

[b] **Performance Bonding Facility**

In May 2011, the Company entered into a Facility Agreement comprising a Corporate Loan facility and a Performance Bonding facility. The undrawn Corporate Loan facility was cancelled in April 2013. The Performance Bonding facility was reduced in size from $55.0 million to $20.0 million in June 2017 and extended to 30 June 2021. As at balance date, bonds and guarantees totalling $11.6 million were drawn under the Performance Bond Facility.

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

Recognition and measurement

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 inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

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.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

Notes to the Consolidated Financial Report (continued)

19. Provisions

	Road Resealing		Restructure		Decommissioning Rehabilitation		Other Provisions		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current	2,536	1,878	-	-	1,115	1,100	-	105	3,651	3,083
Non-Current	-	-	-	-	38,736	37,917	-	78	38,736	37,995
	2,536	**1,878**	**-**	**-**	**39,851**	**39,017**	**-**	**183**	**42,387**	**41,078**
Reconciliation										
Carrying amount at the beginning of the year	1,878	2,111	-	3,520	39,017	43,226	183	363	41,078	49,220
Provision for period	1,112	96	-	-	-	-	-	-	1,112	96
Amounts utilised during the period	(454)	(329)	-	(3,520)	(257)	(663)	(87)	(80)	(798)	(4,592)
Unused amounts reversed	-	-	-	-	-	-	(96)	-	(96)	-
Interest accretion on rehabilitation provision - expensed	-	-	-	-	639	1,017	-	-	639	1,017
Interest accretion on rehabilitation provision - capitalised	-	-	-	-	120	-	-	-	120	-
Revised estimate adjustment – continuing operations	-	-	-	-	(2,406)	(2,145)	-	(100)	(2,406)	(2,245)
Revised estimate adjustment – discontinued operations	-	-	-	-	271	(2,418)	-	-	271	(2,418)
Revised estimate adjustment – mine properties asset	-	-	-	-	2,467	-	-	-	2,467	-
Carrying amount at the end of the year	**2,536**	**1,878**	**-**	**-**	**39,851**	**39,017**	**-**	**183**	**42,387**	**41,078**

Road resealing
This provision relates to the forecast cost of roadworks associated with the Tallering Peak and Extension Hill mine sites. Payments to the relevant local government authorities are made annually.

Restructure
This provision relates to the forecast costs associated with release of personnel on the wind down and/or closure of mining sites where a detailed formal plan has been approved and communicated to the relevant mine site workforce.

Decommissioning rehabilitation
This provision represents the present value of decommissioning and rehabilitation costs for the Tallering Peak, Koolan Island and Extension Hill sites. The cost estimates forming the basis of the provisions were prepared as at the balance date by independent consultants specialising in mine closure planning and mine rehabilitation cost estimates. The timing of decommissioning and rehabilitation expenditure is dependent on the life of the mines and on the timing of the rehabilitation requirements, which may vary in the future. Based on current estimates, the bulk of expenditure on decommissioning rehabilitation is expected to occur at Tallering Peak and Extension Hill within the next 1-3 years, and at Koolan Island between 5-7 years from balance date.

Notes to the Consolidated Financial Report (continued)

	2017 $'000	2016 $'000

19. Provisions (Continued)

The following table summarises the decommissioning rehabilitation provision by mine site:

	2017 $'000	2016 $'000
Tallering Peak	1,115	1,100
Koolan Island	27,331	29,115
Extension Hill	11,405	8,802
	39,851	39,017

Recognition and measurement

Rehabilitation costs

Long-term environmental obligations are based on the Group's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

Restructuring provision

Restructuring provisions are recognised by the Group only when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Other Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

Key estimate : mine rehabilitation provision

The Group assesses its mine rehabilitation provision annually in accordance with the accounting policy stated above. Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in anticipated rehabilitation activities and costs, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

Notes to the Consolidated Financial Report (continued)

	2017 $'000	2016 $'000

20. Issued Capital

[a] Ordinary shares

	2017 $'000	2016 $'000
Issued and fully paid	**568,328**	**568,328**

		2017 Number of Shares	2017 $'000	2016 Number of Shares	2016 $'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		1,091,279,435	568,328	1,090,805,085	568,328
Exercise of Performance Rights	[i]	533,625	-	474,350	-
		1,091,813,060	568,328	1,091,279,435	568,328
Restricted shares – executive loan share plan issues	[ii]	4,749,456	-	-	-
End of the financial year		1,096,562,516	568,328	1,091,279,435	568,328

[i] On 1 July 2016, 533,625 shares were issued as a result of the vesting and exercise of the equivalent number of Performance Rights.

[ii] On 24 August 2016, 4,749,456 shares were issued under the Company's Loan Share Plan. These have been accounted for as an in-substance option award. Refer note 24(d) for further details.

[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.

Effective from 1 July 1998, the Corporations legislation abolished the concept of authorised capital and par values. Accordingly, the Company does not have authorised capital nor a par value in respect of its issued shares.

[d] Share options

As at 30 June 2017, there were no options on issue (2016: nil) – see note 24(b).

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

[e] Performance rights

During the year ended 30 June 2017, no Performance Rights were issued.

A total of 533,625 Performance Rights vested during the year and accordingly, 533,625 ordinary shares were issued on 1 July 2016.

As at 30 June 2017, there were no Performance Rights on issue (2016: 711,500) – see note 24(c).

[f] Capital management

The primary objectives of the Group's capital management program are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or other securities.

No changes were made in the objectives, policy or processes for managing capital during the years ended 30 June 2017 and 30 June 2016.

Notes to the Consolidated Financial Report (continued)

	Notes	2017 $'000	2016 $'000

21. Reserves

	Notes	2017 $'000	2016 $'000
Share based payments reserve	[a]	20,531	20,037
Net unrealised gains reserve	[b]	232	-
Dividend distribution reserve	[c]	964,262	964,262
Other reserves	[d]	(3,192)	(3,192)
		981,833	**981,107**

[a] Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Balance at the beginning of the year	20,037	19,973
Share based payments	494	64
Balance at the end of the year	20,531	20,037

[b] Net unrealised gains reserve

This reserve records movement for available-for-sale financial assets to fair value and gains and losses on hedging instruments classified as effective cash flow hedges.

Balance at the beginning of the year	-	-
Net gains on cash flow hedges	232	-
Deferred income tax on cash flow hedges	-	-
Balance at the end of the year	232	-

[c] Dividend distribution reserve

This reserve is used to record profits from prior income years for the purpose of future dividend distribution by the Company.

Balance at the beginning of the year	964,262	964,262
Movement during the period	-	-
Balance at the end of the year	964,262	964,262

[d] Other reserves

This reserve is used to record the gain or loss arising from the sale or acquisition of non-controlling interests to or from third party investors.

Balance at the beginning of the year	(3,192)	(3,192)
Movement during the period	-	-
Balance at the end of the year	(3,192)	(3,192)

22. Accumulated Losses

	Notes	2017 $'000	2016 $'000
Balance at the beginning of the year		(1,157,500)	(1,243,797)
Dividends paid during the period	26[a]	-	-
Net profit attributable to members of the Company		26,322	86,297
Balance at the end of the year		**(1,131,178)**	**(1,157,500)**

Notes to the Consolidated Financial Report (continued)

	Notes	2017 $'000	2016 $'000
23. Expenditure Commitments			
[a] Exploration Expenditure Commitments	[i]		
Minimum obligations not provided for in the financial report and are payable:			
• Not later than one year		520	886
• Later than one year but not later than five years		1,011	1,423
• Later than five years		863	1,042
		2,394	**3,351**
[b] Operating Lease Commitments	[ii]		
Minimum lease payments			
• Not later than one year		1,817	1,814
• Later than one year but not later than five years		3,125	1,982
• Later than five years		946	-
		5,888	**3,796**
[c] Property, plant and equipment commitments	[iii]		
Commitments contracted for at balance date but not recognised as liabilities			
• Not later than one year		1,326	264
• Later than one year but not later than five years		-	-
		1,326	**264**
[d] Contractual commitments	[iv]		
Commitments for the payment of other mining and transport contracts:			
• Not later than one year		8,282	24,764
• Later than one year but not later than five years		600	-
		8,882	**24,764**

[i] In order to maintain current rights to explore and mine the tenements at its various mines and projects, the Group is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Mines and Petroleum.

[ii] Operating leases relate to leases for office space and land lease with an initial term of 5 years, and leases for equipment which have an average term of 1.5 years.

[iii] The Group has contractual commitments to purchase property, plant and equipment at Koolan Island and Extension Hill.

[iv] Amounts disclosed as contractual commitments relate primarily to supplier arrangements at the Group's Extension Hill and Koolan Island sites where financial obligations, including minimum notice periods, apply in the case of early termination. In previous years, the Group has also had early termination commitments in relation to its Extension Hill transport arrangements, and these commitments were removed in the current reporting period when certain pre-defined cumulative transport volume thresholds were reached.

	Notes	2017 $'000	2016 $'000

24. Share-Based Payment Plans

(a) Recognised share-based payment expense

	Notes	2017 $'000	2016 $'000
Expense arising from equity-settled share-based payment transactions	4[d]	494	64

The share-based payment plans are described below. There have been no cancellations of any of the plans during 2017 and 2016.

(b) Employee Option Scheme

An Employee Option Scheme has been established where the Company may, at the discretion of the Board, grant options over the ordinary shares of the Company. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the Directors of the Company. All Directors, officers and employees are eligible for this scheme. No options were issued during the years ended 30 June 2017 or 2016. As at balance date, no options over unissued shares were on issue.

(c) Performance Rights Plan

The Company has established a Performance Rights Plan. Rights are granted at no cost to recipients and convert (vest) into ordinary shares on completion by the recipient of minimum periods of continuous service and the satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("**TSR**") measured against a comparator group of companies over specified periods.

The vesting scale applicable to the Company's TSR performance is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76th percentile	100%
> 51st percentile and ≤76th percentile	Pro rata allocation
51st percentile	50%
<51st percentile	0%

Information with respect to the number of performance rights granted and issued is as follows:

	2017 No. of Performance Rights	2016 No. of Performance Rights
Balance at beginning of year	711,500	1,185,850
- granted	-	-
- exercised	(533,625)	(474,350)
- lapsed/forfeited	(177,875)	-
Balance at year end	**-**	**711,500**

A total of 533,625 Performance Rights vested on 1 July 2016 in accordance with the terms of the vesting conditions. At 30 June 2017, there were no Performance Rights on issue.

(d) Loan Share Plan

The Company established a Loan Share Plan (**"LSP"**) during the reporting period. Under the LSP, ordinary shares in the Company may be issued to eligible participants, with vesting of the shares being subject to the satisfaction of stipulated performance conditions. The shares are issued at their market value with the recipient required to pay this market value in order to take up the share offer. The Company or any of its subsidiaries will provide a loan to fund the acquisition price. The loan is interest-free and is secured against the shares in the form of a holding lock preventing all dealing in the shares. The loan is limited recourse such that if the shares do not ultimately vest and are therefore forfeited, this is treated as full repayment of the loan balance. While the loan balance remains outstanding, any dividends paid on the shares will be automatically applied towards repayment of the loan. In making the loan in respect of the newly issued shares, there is no cash cost to the Company as the shares are newly issued.

On 24 August 2016 the Company issued 4,749,456 shares under the LSP. In accordance with the terms of the LSP, the shares were issued at a market price of $0.316 per share with the participants responsible for associated limited recourse loans totalling $1,500,828. In order for the shares to vest, the participants must remain continuously employed by the Group to at least the end of the financial year and the Company's share price, as measured by a rolling five day volume weighted average price of the Company's shares traded on the ASX, must on 1 July 2017 or at any time in the following four year period be above a 10% premium to the issue price of the shares. The award has been accounted for as an in-substance option award, with the fair value at grant date assessed at $0.104 per share. In calculating this fair value, a Monte Carlo simulation model was utilised over several thousand simulations to predict the share price at each vesting test date and whether the 10% hurdle was satisfied, with the resultant values discounted back to the grant date. The underlying share price and the exercise price were assumed at $0.31 per share, the period to exercise was assumed as three years (being half way between the first possible vesting date and the expiry of the LSP shares), the risk free rate was 1.40% based on Australian Government bond yields with three year lives, the estimated volatility was 50% based on historical share price analysis, and the dividend yield was assumed as nil.

Notes to the Consolidated Financial Report (continued)

24. Share-Based Payment Plans (Continued)

Recognition and measurement

Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("**equity-settled transactions**").

Options

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan.

The cost of any options issued under this plan is measured by reference to their fair value at the date at which they are granted. The fair value is typically determined by using a binomial model. No account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

Performance rights

There is a Mount Gibson Iron Limited Performance Rights Plan ("**PRP**"). The PRP enables the Company to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives.

The cost of Performance Rights issued under the PRP is measured by reference to their fair value at the date at which they are granted. The fair value is determined using either a Black-Scholes or Monte Carlo option valuation model.

Loan share plan

There is a Mount Gibson Iron Limited Loan Share Plan (**"LSP"**). The LSP enables the Company to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives.

The cost of these share rights is measured by reference to the fair value at the date at which they are granted. The fair value is measured by reference to the quoted market price on the Australian Stock Exchange and using a Monte Carlo simulation model.

Equity-Settled Transactions Generally

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("**vesting date**").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options and Performance Rights is reflected as additional share dilution in the computation of earnings per share.

Notes to the Consolidated Financial Report (continued)

25. Earnings Per Share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts is calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2017 $'000	2016 $'000
Profit used in calculating basic and diluted earnings per share:		
Continuing operations	25,599	80,306
Discontinued operations	723	5,991
Profit attributable to ordinary equity holders of the Company	26,322	86,297
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,091,813,060	1,091,037,076
Effect of dilution		
- Performance rights	-	533,625
- Restricted shares (in-substance options)	4,037,038	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,095,850,098	1,091,570,701
Earnings per Share (cents per share):		
Basic earnings per share	2.41	7.91
Diluted earnings per share	2.40	7.91

Conversions, calls, subscriptions or issues after 30 June 2017

There have been no issues of shares or exercises, conversions or realisations of options, performance rights or restricted LSP shares under any of the Company's share-based payment plans since 30 June 2017.

Recognition and measurement

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

Diluted earnings per share is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share 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.

Notes to the Consolidated Financial Report (continued)

	2017 $'000	2016 $'000

26. Dividends Paid and Proposed

Declared and paid during the year:

[a] Dividends on ordinary shares:

No dividends were declared and paid during the reporting period.

[b] Dividends not recognised at the end of the reporting period:

On 15 August 2017, the Company declared a final dividend on ordinary shares in respect of the 2016/17 financial year of $0.02 per share fully franked. The total amount of the dividend is $21,931,000. The dividend has not been provided for in the 30 June 2017 financial statements.

[c] Franked dividends:

	2017 $'000	2016 $'000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30%	59,243	60,774
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	-
	59,243	**60,774**
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	-	-
	59,243	**60,774**

Tax rates

The tax rate at which paid dividends have been franked is 30%.

27. Contingent Liabilities

1. The Group has a Performance Bonding facility drawn to a total of $11,608,000 as at balance date (2016: $25,829,000). The performance bonds secure the Group's obligations relating primarily to environmental matters and infrastructure assets.
2. Certain claims arising with customers, employees, consultants, and contractors have been made by or against certain controlled entities in the ordinary course of business, some of which involve litigation or arbitration. The Directors do not consider the outcome of any of these claims will have a material adverse impact on the financial position of the consolidated entity.

Notes to the Consolidated Financial Report (continued)

28. Key Management Personnel

[a] Compensation of Key Management Personnel

	2017 $	2016 $
Short-term	3,276,676	2,569,717
Post employment	190,499	185,326
Long-term	31,656	14,935
Share-based payment	493,943	64,152
Termination payment	-	-
	3,992,774	**2,834,130**

[b] Loans to Specified Key Management Personnel

Limited recourse loans totalling $1,500,828 were made to key management personnel during the reporting period under the terms of the Company's Loan Share Plan ("**LSP**"). The issue of shares under the LSP and the associated limited recourse loans are accounted for as an in-substance option award. Refer to note 24 for details of the LSP and shares issues made thereunder during the reporting period.

[c] Other Transactions and Balances with Key Management Personnel

There were no other transactions and balances with key management personnel during the year.

29. Related Party Transactions

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Director-related entity transactions

Sales

During all or part of the year Mr Li was a director of Shougang Concord International Trading Pty Ltd (**SCIT**), and Mr Lee and Mr Ferguson were directors of APAC Resources Limited (**APAC**).

The following sale agreements were in place with director-related entities during the period:

- The sale to SCIT of 80% of iron ore from Koolan Island's available mined production over the life of mine.
- The sale to a subsidiary of APAC of 20% of iron ore from Koolan Island's available mined production of the life of mine.
- Three ad hoc spot sales of iron ore from Extension Hill.

Pursuant to these sales agreements, during the financial year, the Group:

- Sold 182,167 WMT (2016: 290,196 WMT) of iron ore to APAC; and
- Sold nil WMT (2016: 1,234,131 WMT) of iron ore to SCIT.

Notes to the Consolidated Financial Report (continued)

Amounts recognised at the reporting date in relation to director-related entity transactions:

	2017 $'000	2016 $'000
Assets and Liabilities		
Current Assets		
Trade receivables – APAC	2,566	819
Trade receivables – SCIT	-	-
Total trade receivables	2,566	819
Total Assets	**2,566**	**819**
Current Liabilities		
Trade payables – APAC	-	-
Trade payables – SCIT	-	-
Total trade payables	-	-
Total Liabilities	**-**	**-**
Net Sales Revenue		
Net sales revenue – APAC	8,901	14,281
Net sales revenue – SCIT	-	48,559
Total Net Sales Revenue	**8,901**	**62,840**

Apart from the above, there are no director-related entity transactions other than those specified in note 28.

30. Auditor's Remuneration

	2017 $	2016 $
Amounts received or due and receivable by EY for:		
▪ An audit or review of the financial report of the entity and any other entity in the consolidated entity	192,095	202,395
▪ Other services in relation to the entity and any other entity in the consolidated entity	3,605	3,600
	195,700	**205,995**

	2017 $'000	2016 $'000

31. Discontinued Operations

The Tallering Peak operation is reported as a discontinued operation in this financial report. Mining was completed in June 2014 and the final shipment of remnant low grade ore occurred in March 2017.

[a] Profit from discontinued operations

The financial results of Tallering Peak operation for the year are presented below:

	2017 $'000	2016 $'000
Revenue	11,085	5,346
Cost of sales	(13,740)	(6,191)
Impairment write-back on ore inventories	3,378	6,816
Gross profit	723	5,971
Impairment/obsolescence write-back on consumables inventories	-	20
Profit before tax and finance costs from discontinued operations	723	5,991
Finance costs	-	-
Profit before tax from discontinued operations	723	5,991
Income tax benefit/(expense)	-	-
Net profit after tax from discontinued operations	723	5,991
Earnings per share (cents per share):		
▪ basic earnings per share	0.07	0.55
▪ diluted earnings per share	0.07	0.55

[b] Cash flow from discontinued operations

The net cash flows incurred by Tallering Peak operation are as follows:

	2017 $'000	2016 $'000
Operating	2,399	1,568
Investing	-	-
Financing	-	-
Net cash inflow from discontinued operations	**2,399**	**1,568**

Notes to the Consolidated Financial Report (continued)

32. Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the executive management team in assessing performance and in determining the allocation of resources.

For management purposes, the Group has organised its operating segments into two reportable segments as follows:

- Extension Hill segment – this segment includes the mining, crushing, transportation and sale of iron ore from the Extension Hill and Iron Hill iron ore deposits.
- Koolan Island segment – this segment was on care and maintenance until the end of April 2017, at which time the Group commenced the Koolan Island restart project.

Operating results for each reportable segment are reviewed separately by management for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial statements.

There have been no inter-segment revenues.

Items that are managed on a Group basis and are not allocated to segments as they are not considered part of core operations of any segment are as follows:

- Finance costs and revenue on investments
- Interest revenue
- Foreign exchange gains / (losses)
- Corporate costs

Operating results for discontinued operations have been excluded from the segment results below.

During the year ended 30 June 2017, revenue received from the sale of iron ore comprised purchases by the following buyers who each on a proportionate basis equated to greater than 10% of total sales for the period:

Customer	2017 $'000
# 1	53,669
# 2	38,672
Other	69,541
	161,882

During the year ended 30 June 2016, revenue received from the sale of iron ore comprised purchases by the following buyers who each on a proportionate basis equated to greater than 10% of total sales for the period:

Customer	2016 $'000
# 1	85,757
# 2	48,613
# 3	33,845
Other	66,591
	234,806

Revenue from external customers by geographical location is based on the port of delivery. All iron ore has been shipped to China during the year ended 30 June 2017.

All segment assets are located within Australia.

Notes to the Consolidated Financial Report (continued)

32. Segment Information (Continued)

	Extension Hill		Koolan Island		Unallocated*		Consolidated	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Segment revenue								
Revenue from sale of iron ore	162,043	175,214	-	59,974	-	-	162,043	235,188
Interest revenue	-	-	-	-	12,113	9,667	12,113	9,667
Segment revenue	**162,043**	**175,214**	**-**	**59,974**	**12,113**	**9,667**	**174,156**	**244,855**
Segment result								
Earnings/(loss) before impairment, interest, tax, depreciation and amortisation	36,092	25,558	(3,154)	8,210	(3,486)	82,747	29,452	116,515
Impairment (loss)/reversal	32	(16,409)	2,260	(5,738)	(459)	(71)	1,833	(22,218)
Earnings/(loss) before interest, tax, depreciation and amortisation	36,124	9,149	(894)	2,472	(3,945)	82,676	31,285	94,297
Depreciation and amortisation	(2,373)	(7,068)	(3,067)	(5,224)	(593)	(700)	(6,033)	(12,992)
Segment result	**33,751**	**2,081**	**(3,961)**	**(2,752)**	**(4,538)**	**81,976**	**25,252**	**81,305**
Finance costs							(1,134)	(1,760)
Profit before tax and discontinued operations							**24,118**	**79,545**
Items included in segment result:								
Impairment/(write-backs) of consumables inventories	(219)	1,824	(2,260)	6,287	-	-	(2,479)	8,111
Impairment (write-backs)/loss on ore inventories	3,153	-	-	(3,442)	-	-	3,153	(3,442)
Impairment of property, plant and equipment	-	9,484	-	2,893	-	-	-	12,377
Impairment of mine development	-	2,135	-	-	-	-	-	2,135
Impairment/(write-backs) of exploration and evaluation expenditure	(2,966)	2,966	-	-	459	71	(2,507)	3,037
	(32)	16,409	(2,260)	5,738	459	71	(1,833)	22,218

* 'Unallocated' includes interest revenue ($12,113,000) and corporate expenses such as head office salaries and wages.

	Extension Hill 2017 $'000	Extension Hill 2016 $'000	Koolan Island 2017 $'000	Koolan Island 2016 $'000	Unallocated* 2017 $'000	Unallocated* 2016 $'000	Consolidated 2017 $'000	Consolidated 2016 $'000
Segment assets								
Current financial assets	9,504	5,838	2,152	4,932	444,992	431,094	456,648	441,864
Other current assets	17,289	17,747	4,249	1,839	1,151	2,368	22,689	21,954
Property, plant and equipment	2,637	1,752	2,580	5,912	702	1,080	5,919	8,744
Mine properties	5,903	-	4,988	-	-	-	10,891	-
Total assets	**35,333**	**25,337**	**13,969**	**12,683**	**446,845**	**434, 542**	**496,147**	**472,562**
Segment liabilities								
Financial liabilities	19,136	23,958	4,184	1,652	8,157	11,040	31,477	36,650
Other liabilities	13,944	11,179	27,762	29,397	3,981	3,401	45,687	43,977
Total liabilities	**33,080**	**35,137**	**31,946**	**31,049**	**12,138**	**14,441**	**77,164**	**80,627**
Net assets/(liabilities)	**2,253**	**(9,800)**	**(17,977)**	**(18,366)**	**434,707**	**420,101**	**418,983**	**391,935**

Notes to the Consolidated Financial Report (continued)

33. Events After the Balance Sheet Date

Following the end of the reporting period, on 7 July 2017 the Company announced that it had reached final agreement with 14 insurers, representing 92.5% of the Company's insurance cover for business interruption suffered from the late 2014 failure of the Koolan Island seawall, for a cash settlement of the claim for $64,288,000. Proceeds of the settlement have been received and recognised after balance date. Negotiations will continue separately with one insurer representing the remaining 7.5% of the Company's business interruption coverage.

On 15 August 2017, the Company declared a final dividend on ordinary shares in respect of the 2016/17 financial year of $0.02 per share fully franked. The total amount of the dividend is $21,931,000. The dividend has not been provided for in the 30 June 2017 financial statements.

Apart from the above, as at the date of this report there are no significant events after balance date of the Company or of the Group that require adjustment of or disclosure in this report.

34. Financial Instruments

[a] Financial risk management objectives

The Group's principal financial instruments, other than derivatives, comprise bank and equipment finance arrangements, cash and short-term deposits, and financial assets held for trading.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivatives transactions, principally forward currency contracts, and from time to time also enters into foreign currency collar options and interest rate swaps. The purpose is to manage the currency and interest rate risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, commodity price risk and liquidity risk. The Board reviews and agrees management's recommended policies for managing each of these risks, as summarised below and in accordance with the Company's Financial Risk Management Policy.

[b] Foreign currency risk

The Group is exposed to the risk of adverse movement in the A$ compared to the US$ as its iron ore sales receipts are predominantly denominated in US$. The Group has used derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of forecast US$ sales transactions in accordance with its risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings and cashflows attributable to changes in the A$/US$ exchange rate and to protect against adverse movements in this rate.

The Group recognises derivative financial instruments at fair value at the date the derivative contract is entered into. The Group applies hedge accounting to forward foreign currency contracts and collar option contracts that meet the criteria of cash flow hedges.

During the year ended 30 June 2017, there were no US dollar foreign exchange forward contract deliveries.

At 30 June 2017, the notional amount of the foreign exchange hedge book totalling US$12,000,000 is made up exclusively of collar option contracts with maturity dates due in the 3 months ended 27 September 2017 and with a cap price of A$1.00/US$0.7550 and a floor price of A$1.00/US$0.7205.

As at 30 June 2017, the marked-to-market unrealised gain on the total outstanding US dollar foreign exchange hedge book of US$12,000,000 was A$341,000.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The Group uses the following derivative instruments to manage foreign currency risk from time to time as business needs and conditions dictate:

Instrument	Type of Hedging	Objective
Forward exchange contracts	Cash flow hedge	To hedge sales receipts against cash flow volatility arising from the fluctuation of the A$/US$ exchange rate.
Collar options	Cash flow hedge	To hedge sales receipts against cash flow volatility arising from the fluctuation of the A$/US$ exchange rate by limiting exposure to exchange rates within a certain range of acceptable rates.

Notes to the Consolidated Financial Report (continued)

34. Financial Instruments (Continued)

[i] Foreign exchange contracts – cash flow hedges

At balance date, the following foreign exchange contracts designed as a hedge of anticipated future receipts that will be denominated in US$ were outstanding:

	2017				2016			
	Average Contract Rate A$/US$	Contract Amount US$ $'000	Contract Amount A$ $'000	Fair Value A$ $'000	Average Contract Rate A$/US$	Contract Amount US$ $'000	Contract Amount A$ $'000	Fair Value A$ $'000
Collar Option Contracts								
- within one year call strike price 0.7500 put strike price 0.6850					0.7500	15,000	20,000	231
- within one year call strike price 0.7550 put strike price 0.7205	0.7550	12,000	15,894	341	-	-	-	-
Total	**0.7550**	**12,000**	**15,894**	**341**	**0.7500**	**15,000**	**20,000**	**231**

As balance date, the following foreign exchange contracts were recognised on the balance sheet and income statement:

	Notes	2017 $'000	2016 $'000
Current assets	11	341	231
Total collar option contracts		341	231
Movement in foreign exchange contract cash flow hedge reserve:			
Opening balance		-	-
Change in fair value of cash flow hedges net of tax		341	(231)
Transferred from/(to) revenue in Income Statement net of tax			
- Continuing operations		(109)	231
- Discontinued operations		-	-
Closing balance		232	-
Cash flow hedge ineffectiveness recognised immediately in profit and loss		(123)	231

[ii] Foreign currency sensitivity

The following table details the effect on profit and other comprehensive income after tax of a 10% change in the A$ against the US$ from the spot rates at 30 June 2017 and 30 June 2016 due to changes in the fair value of monetary assets and liabilities.

	Net Profit		Other Comprehensive Income	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
10% appreciation in the A$ spot rate with all other variables held constant	(767)	(580)	1,167	-
10% depreciation in the A$ spot rate with all other variables held constant	938	710	(526)	-

The sensitivity analysis of the Group's exposure to the foreign currency risk at balance date has been determined based on the change in value due to foreign exchange movement based on exposures at balance sheet date. A positive number indicates an increase in profit and other comprehensive income.

Notes to the Consolidated Financial Report (continued)

34. Financial Instruments (Continued)

At balance date, the Group's exposure to foreign currency risks on financial assets and financial liabilities, excluding derivatives, are as follows:

		2017 $'000	2016 $'000
Financial Assets			
Cash	(included within note 6)	6,729	7,164
Trade receivables	(included within note 9)	6,440	2,862
Financial Liabilities			
Trade payables	(included within note 17)	(1,116)	(901)
Net exposure		**12,053**	**9,125**

[c] Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents, term deposits and subordinated notes, and financial assets held for trading (tradeable corporate bonds).

The Group's policy is to manage its interest costs using a mix of fixed and variable rate debt (as appropriate).

The Group regularly analyses its interest income rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative financing arrangements.

At balance date, the Group's exposure to interest rate risks on financial assets and financial liabilities was as follows:

Notes to the Consolidated Financial Report (continued)

34. Financial Instruments (Continued)

CONSOLIDATED	Floating interest rate 2017 $'000	Floating interest rate 2016 $'000	Fixed interest rate maturing in: 1 year or less 2017 $'000	1 year or less 2016 $'000	Over 1 to 5 years 2017 $'000	Over 1 to 5 years 2016 $'000	Non-interest bearing 2017 $'000	Non-interest bearing 2016 $'000	Total carrying amount per balance sheet 2017 $'000	Total carrying amount per balance sheet 2016 $'000	Weighted Average Interest 2017 %	Weighted Average Interest 2016 %
i) ***Financial assets***												
Cash	33,755	43,315	-	-	-	-	1	1	**33,756**	**43,316**	0.47	0.78
Short-term deposits (< 3 months maturity)	-	-	15,000	-	-	-	-	-	**15,000**	**-**	2.23	-
Term deposits – receivables	-	-	268,500	250,000	-	-	-	-	**268,500**	**250,000**	2.62	2.94
Subordinated notes – available-for-sale	97,000	87,000	-	-	-	-	-	-	**97,000**	**87,000**	3.14	3.74
Financial assets held for trading	-	-	31,217	19,771	-	-	1,306	-	**32,523**	**19,771**	4.17	4.78
Trade and other receivables	-	-	-	-	-	-	9,528	41,546	**9,528**	**41,546**	-	-
Derivative financial assets	-	-	-	-	-	-	341	231	**341**	**231**	-	-
Total financial assets	**130,755**	**130,315**	**314,717**	**269,771**	**-**	**-**	**11,176**	**41,778**	**456,648**	**441,864**		
ii) ***Financial liabilities***												
Trade and other payables	-	-	-	-	-	-	31,477	36,229	**31,477**	**36,229**	-	-
Insurance premium funding	-	-	-	421	-	-	-	-	**-**	**421**	-	1.86
Total financial liabilities	**-**	**-**	**-**	**421**	**-**	**-**	**31,477**	**36,229**	**31,477**	**36,650**		

Notes to the Consolidated Financial Report (continued)

34. Financial Instruments (Continued)

[i] Interest rate sensitivity

The following table details the effect on profit and other comprehensive income after tax of a 0.25% change in interest rates, in absolute terms.

	Net Profit		Other Comprehensive Income	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
• 0.25% increase in interest rate with all other variables held constant	721	624	-	-
• 0.25% decrease in interest rate with all other variables held constant	(721)	(624)	-	-

The sensitivity analysis of the Group's exposure to Australian variable interest rates at balance date has been determined based on exposures at balance sheet date. A positive number indicates an increase in profit and equity.

[d] Credit risk

The Group'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 balance sheet.

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 Group'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 Group.

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of advance payments and letters of credit which effectively protect at least 90% of the estimated receivable amount at the time of sale.

Credit risk from balances with banks and financial institutions is managed in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties with an acceptable Standard & Poors credit rating and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is presently considered to exist by virtue of the possible non-performance of the counterparties to financial instruments.

There are no significant concentrations of credit risk within the Group.

[e] Commodity price risk

The Group's operations are exposed to commodity price risk as the Group sells iron ore to its customers. The majority of the Group's sales revenue is derived under long term sales contracts for each of its operations. The pricing mechanism in these contracts reflects a market based clearing index. The pricing mechanism adopts the Platts Iron Ore Index Price ("**Platts Index**") which is published daily for iron ore "fines" with Fe content ranging from 52% to 65% and is quoted on a US$ per dry metric tonne "Cost and Freight" North China basis. "Lump" iron ore typically receives a premium to the published Platts Index "fines" price.

During the period, the Group entered into forward sales agreements covering six shipments each of 60,000 tonnes of iron ore, with maturity dates spread over the period January to June 2017. The contracts were stated in US$ per dry metric tonne and were cash settled against the average daily CFR benchmark price for 62% Fe fines ores for delivery to northern China. The average price of the forward contracts at each maturity date was between US$70 and US$76 per tonne. Movements in the market value of the forward sale contracts are taken to the income statement. There were no outstanding iron ore forward contracts as at 30 June 2017, however a receivable of $1,104,000 was recorded at balance date in relation to the contract that matured in June 2017 which will be cash settled in July 2017.

Notes to the Consolidated Financial Report (continued)

34. Financial Instruments (Continued)

[f] Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of its cash reserves and equipment financing arrangements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The Group's capital risk management objectives are to safeguard the business as a going concern, to provide appropriate returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital (being equity and debt).

Mount Gibson does not have a target debt/equity ratio but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

At 30 June 2017, the Group had unutilised performance bonding facilities totalling $8,392,000 (2016: $29,171,000). Refer note 18.

Tabulated below is an analysis of the Group's financial liabilities according to relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the balance sheet.

	30 June 2017					30 June 2016				
	Less than 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000	Less than 6 months $'000	6 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial Liabilities										
Trade and other payables	31,477	-	-	-	31,477	36,229	-	-	-	**36,229**
Insurance premium funding	-	-	-	-	-	423	-	-	-	**423**
Derivatives – inflow	(16,235)	-	-	-	(16,235)	(20,231)	-	-	-	**(20,231)**
Derivatives – outflow	15,894	-	-	-	15,894	20,000	-	-	-	**20,000**
	31,136	**-**	**-**	**-**	**31,136**	**36,421**	**-**	**-**	**-**	**36,421**

[g] Fair value of financial assets and financial liabilities

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – valuation techniques (for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – valuation techniques (for which the lowest level of input that is significant to the fair value measurement is unobservable)

The fair values of derivative financial instruments are determined using the Level 2 method requiring fair value to be calculated using short and long term observable market inputs. The Group's fair values under the Level 2 method are sourced from an independent valuation by the Group's treasury advisors. The valuation techniques use prevailing market inputs sourced from Reuters/Bloomberg to determine an appropriate mid price valuation.

The fair values of quoted notes and bonds (classified as either financial assets held for trading or available-for-sale) are determined using Level 1 method based on market price quotations at the reporting date.

The fair values of cash, short-term deposits, trade and other receivables, trade and other payables and other interest-bearing borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.

Notes to the Consolidated Financial Report (continued)

34. Financial Instruments (Continued)

The carrying amounts and fair values of the financial assets and financial liabilities for the Group as at 30 June 2017 are shown below.

	2017 Carrying Amount $'000	2017 Fair Value $'000	2016 Carrying Amount $'000	2016 Fair Value $'000
Financial assets – current				
Cash	33,756	33,756	43,316	43,316
Short-term deposits	15,000	15,000	-	-
Term deposits – receivables	268,500	268,500	250,000	250,000
Subordinated notes – available-for-sale	97,000	97,000	87,000	87,000
Financial assets held for trading	32,523	32,523	19,771	19,771
Trade debtors and other receivables	9,528	9,528	41,546	41,546
Derivatives	341	341	231	231
	456,648	456,648	441,864	441,864
Financial liabilities – current				
Trade and other payables	31,477	31,477	36,229	36,229
Insurance premium funding	-	-	421	421
	31,477	31,477	36,650	36,650
Net financial assets	**425,171**	**425,171**	**405,214**	**405,214**

Recognition and measurement

Derivative financial instruments and hedging

The Group uses foreign currency to hedge its risks associated with foreign currency and commodity price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction. All hedges are currently classified as cash flow hedges.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Effectiveness is tested at inception of each hedge and monthly thereafter until the hedge expires. The cumulative dollar offset method is applied in the measurement of effectiveness. The cumulative approach involves comparing the cumulative change (to date from inception of the hedge) in the hedging instrument's fair values to the cumulative change in the hedged item's (or USD cash flow) attributable to the risk being hedged.

Effectiveness of the forward exchange contracts is monitored by comparing the forward net present value of the underlying cash flows to the forward net present value of the fair value associated with the hedging instrument. Prospective and retrospective testing is undertaken by the Group's treasury advisors.

At each balance date, the Group measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over hedged, the ineffective portion is taken immediately to other income or expense in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Notes to the Consolidated Financial Report (continued)

35. Parent Entity Information

	2017 $'000	2016 $'000
[a] Information relating to Mount Gibson Iron Limited:		
Current assets	17,134	47,701
Total assets	799,833	759,577
Current liabilities	2,095	464
Total liabilities	380,850	367,642
Issued capital	568,328	568,328
Issued capital – restricted shares under Loan Share Plan	1,501	-
Accumulated losses	(565,683)	(590,736)
Dividend distribution reserve	394,306	394,306
Share based payments reserve	20,531	20,037
Total Shareholder's Equity	418,983	391,935
Net profit after tax of the parent entity	25,053	86,296
Total comprehensive profit of the parent entity	25,053	86,296

[b] Details of any guarantees entered into by the parent entity

There are cross guarantees given by Mount Gibson Iron Limited in relation to the debts of its subsidiaries as described in note 12 and note 18.

The parent entity has further provided bank guarantees in respect of obligations to various authorities. Refer to note 18.

[c] Details of any contingent liabilities of the parent entity

The parent entity had contingent liabilities as at reporting date as set out in note 27. For information about guarantees given by the parent entity, refer [b] above.

Mount Gibson Iron Limited guarantees the performance of Mount Gibson Mining Limited's obligations to Aurizon entities under the Transport Agreement made on 26 June 2008 as amended and restated on 30 June 2009. In accordance with this agreement, Mount Gibson Mining Limited agrees to reimburse Aurizon for track access charges properly due and payable to Brookfield, the rail infrastructure owner.

[d] Details of any contractual commitments by the parent entity for the acquisition of property, plant and equipment

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at reporting date.

[e] Tax Consolidation

The Company and its 100%-owned entities have formed a tax consolidated group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Notes to the Consolidated Financial Report (continued)

36. New Accounting Standards

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

From 1 July 2016 the Group has adopted all new and amended accounting standards mandatory for annual periods beginning on or after 1 July 2016 including:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	The amendments clarify certain requirements in: ► AASB 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in methods of disposal ► AASB 7 Financial Instruments: Disclosures - servicing contracts; applicability of the amendments to AASB 7 to condensed interim financial statements ► AASB 119 Employee Benefits - regional market issue regarding discount rate ► AASB 134 Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	This Standard amends AASB 101 *Presentation of Financial Statements* to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.	1 July 2016	1 July 2016

Changes to accounting policies due to adoption of these standards and interpretations are not considered significant for the Group.

Notes to the Consolidated Financial Report (continued)

Other Australian Accounting Standards and Interpretations relevant to the Group that have recently been issued or amended, are not yet effective and have not been adopted by the Group for the period ended 30 June 2017 are outlined in the table below:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	This Standard amends AASB 112 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017	1 July 2017
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	This standard amends to AASB 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: ► The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ► Share-based payment transactions with a net settlement feature for withholding tax obligations ► A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled	1 January 2018	1 July 2018
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	The amendments clarify certain requirements in: ► AASB 1 *First-time Adoption of Australian Accounting Standards* – deletion of exemptions for first-time adopters and addition of an exemption arising from AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration ► AASB 12 *Disclosure of Interests in Other Entities* – clarification of scope ► AASB 128 *Investments in Associates and Joint Ventures* – measuring an associate or joint venture at fair value AASB 140 Investment Property – change in use.	1 January 2018	1 July 2018
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.	1 January 2017	1 July 2017
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.	1 January 2018	1 July 2018

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15	Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 *Leases*, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer. (b) Step 2: Identify the performance obligations in the contract. (c) Step 3: Determine the transaction price. (d) Step 4: Allocate the transaction price to the performance obligations in the contract. (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	1 January 2018	1 July 2018
AASB 9	Financial Instruments	AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement.* Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.	1 January 2018	1 July 2018

Notes to the Consolidated Financial Report (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1 January 2019	1 July 2019
AASB Int 22	Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	1 January 2018	1 July 2018

The Group has elected not to early adopt any of these new standards or amendments in these financial statements. In view of the current state of operations, the Group has yet to fully assess the full impact of the below accounting standards, when applied in future periods:

- AASB 15 *Revenue from Contracts with Customers* changes the timing (and in some case, the quantum) of revenue recognised from customers. The standard does not apply mandatorily before 1 January 2018.

  The Group has made a preliminary assessment of the potential impacts of AASB 15 as at the reporting date and formed an initial view that the new standard may operate to require the deferral of the recognition of revenues apportioned to the remaining sea voyages of "in transit" vessels to their destination ports where iron ore cargoes are discharged and "cost and freight" (CFR) sales revenues fully earned. Based on the limited number of vessels expected to be in transit at any reporting date, the new standard is considered unlikely to have a material impact on the Group's financial results when it is first adopted for the year ending 30 June 2019.

- AASB 16 *Leases* eliminates the distinction between operating and finance leases, and brings all leases (other than short term leases) onto the balance sheet. The standard does not apply mandatorily before 1 January 2019. While in early stages of assessment, the Group has yet to fully assess the impact on the Group's financial results when it is first adopted for the year ending 30 June 2020.

Directors' Declaration

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

1. In the opinion of the Directors:

   a. the financial statements, notes and the additional disclosures included in the Directors Report designated as audited of the Group are in accordance with the *Corporations Act 2001*, including:

      i) giving a true and fair view of the financial position of the Group as at 30 June 2017 and of its performance for the year ended on that date; and

      ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and

   b. the financial statements and notes also comply with International Reporting Standards as disclosed in Note 1; and

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.

Signed in accordance with a resolution of the directors.

LEE SENG HUI
Chairman

Sydney, 15 August 2017

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Independent auditor's report to the Members of Mount Gibson Iron Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Mount Gibson Iron Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2017, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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1. Provision for rehabilitation

Why significant	How our audit addressed the key audit matter
As a consequence of its operations the Group incurs obligations to rehabilitate and restore its mine sites. Rehabilitation activities are governed by local legislative requirements. As at 30 June 2017 the Group's consolidated balance sheet includes provisions of $40 million in respect of these obligations (refer to note 19 to the financial report). We focused on this matter because estimating the costs associated with these future activities requires judgment and estimation for factors such as timing of when rehabilitation will take place, the extent of the rehabilitation and restoration activities and economic assumptions such as inflation rates and discount rates which are used to determine the provision amount.	We evaluated the assumptions and methodologies used by the Group in arriving at their rehabilitation cost estimates. In doing so we: ► Assessed the independence (in relation to external experts), objectivity, qualifications and experience of both the Group's internal and external experts whose work formed the basis of the Group's cost estimates. ► Tested the appropriateness of the inflation and discount rate assumptions used in the Groups cost estimates, having regard to available economic data on future inflation and discount rates. ► Evaluated the adequacy of the Group's disclosures relating to rehabilitation obligations and considered the treatment applied to changes in the rehabilitation and restoration provision.

2. Impairment reversal assessment of assets previously impaired at Koolan Island

Why significant	How our audit addressed the key audit matter
As set out in note 16 to the financial report the decision to rebuild the Koolan Island main pit seawall and recommence operations was considered to be an indicator of a potential reversal of some of the previously impaired assets at Koolan Island. Based on the impairment assessment performed no impairment reversal was recognised. We focused on this matter because of the: ► Significant judgment involved in determining if there was an indicator that an impairment loss recognised in prior periods may either need to be reversed in full or in part.	We examined the Group's assessment of whether there was any indication that an impairment loss recognised in prior periods for Koolan Island may have reversed in part or in full. We assessed the reasonableness of the recoverable value calculation for Koolan Island determined by the Group. In doing so we: ► Evaluated the assumptions and methodologies used by the Group, in particular, those relating to forecast cash flows and inputs used to formulate them. This included assessing, with involvement from our valuation specialists, the discount rate, foreign exchange rates and iron ore prices with reference to market prices (where available), market research, market practice, market indices, broker consensus and historical performance.

GB:EH:MGI:229

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Why significant	How our audit addressed the key audit matter
► Significant judgment and estimates involved in the determination of the recoverable amount of the Koolan Island CGU including assumptions relating to future iron ore prices, exchange rates, operating and capital costs and an appropriate discount rate to reflect the risk associated with the forecast cash flows having regard to the current status of the project.	► Checked the mathematical accuracy of the Group's cash flow impairment models and agreed relevant data, including assumptions on timing and future capital and operating expenditure, to the Group's feasibility analysis of the project and the latest approved life of mine plans. ► Assessed and used the work of management's internal and external experts with respect to the capital and operating assumptions used in the cash flow forecasts. This included understanding the underlying cost estimation process. We also examined the qualifications, objectivity and experience of the experts, including the independence of the external experts, and assessed that key capital and operating expenditure assumptions were consistent with information in Board reports and releases to the market. ► Assessed and used the work of management's internal experts with respect to the reserve assumptions used in the cash flow forecasts. This included understanding the reserve estimation process. We also examined the qualifications, objectivity and experience of management's experts, and assessed that key reserve economic assumptions were consistent with other operational information in the financial report.

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3. Accounting for unrecognised deferred tax assets

Why significant	How our audit addressed the key audit matter
As set out in note 5 to the financial report the Group has unrecognised deferred tax assets of $114 million as at 30 June 2017. We focused on this matter because the determination of the probability of the Group deriving taxable income in the future to recoup some or a portion of the unrecognised deferred tax assets is highly judgmental. This is subject to numerous assumptions around the future profitability of the groups mining assets, which in turn is primarily dependent upon assumptions including future production levels, iron ore prices and exchange rates, operating and capital development costs.	We evaluated the appropriateness of the Group's assessment of the probability of the Group deriving assessable income in the future to recoup some or all of the unrecognised deferred tax assets. We involved our tax specialists in the assessment of the Group's tax positions, including the judgments made and estimates used. We considered the appropriateness of the Group's assumptions, estimates and analysis in relation to the Group's future tax position having regard to the status of the Group's operations at 30 June 2017 and the recent financial performance of the Group. We evaluated the adequacy of the Group's disclosures relating to unrecognised tax assets in the 30 June 2017 financial report.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

GB:EH:MGI:229

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We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Mount Gibson Iron Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
15 August 2017

Corporate Governance

The Company's 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. In determining those standards the Company has had reference to the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* recently released 3rd Edition ("ASX Recommendations") during the reporting period. The Company believes that its practices are substantially consistent with the ASX Recommendations and will continue to adapt its governance practices to be consistent with them and make changes as appropriate, having regard to the nature and scale of the Company's business.

A description of the Company's main corporate governance practices is set out in its Corporate Governance Statement available online at www.mtgibsoniron.com.au. The practices reflect the Company's existing corporate governance policies and is current as at 30 September 2017. The Corporate Governance Statement has been approved by the Board.

Additional ASX Information

The information is current as at 5 September 2017.

(a) Distribution of equity securities

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

	Ordinary Shares		
	Number of holders	Number of Shares	% of Issued Capital
1 - 1,000	1,791	921,983	0.08
1,001 - 5,000	3,772	10,927,215	1.00
5,001 - 10,000	1,871	15,003,463	1.37
10,001 - 100,000	3,085	94,451,543	8.61
100,001 - 999,999,999	377	975,258,312	88.94
TOTAL	**10,896**	**1,096,562,516**	**100.0**
The number of Shareholders holding less than a marketable parcel of Shares are:	1947	1,084,658	0.57%

(b) Equity security holders

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

		Number of Shares	% of Shares Held
1.	APAC RESOURCES INVESTMENTS LIMITED	172,257,288	15.71
2.	TRUE PLUS LIMITED	159,166,874	14.52
3.	SUN HUNG KAI INVESTMENT SERVICES LIMITED <CLIENT A/C>	151,523,460	13.82
4.	CITICORP NOMINEES PTY LIMITED	142,226,031	12.97
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	70,010,813	6.38
6.	J P MORGAN NOMINEES AUSTRALIA LIMITED	45,104,089	4.11
7.	DEBORTOLI WINES PTY LIMITED	34,246,165	3.12
8.	NATIONAL NOMINEES LIMITED	29,918,663	2.73
9.	ZERO NOMINEES PTY LTD	17,700,000	1.61
10.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	10,615,647	0.97
11.	BNP PARIBAS NOMS PTY LTD <DRP>	6,772,064	0.62
12.	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	5,334,510	0.49
13.	DE BORTOLI WINES (SUPERANNUATION) PTY LIMITED <DE BORTOLI WINES PL S/F A/C>	4,850,000	0.44
14.	JB LEMAR PTY LTD <FREEMAN SUPER FUND A/C>	4,750,000	0.43
15.	TRUE PLUS LIMITED	4,700,000	0.43
16.	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	4,148,062	0.38
17.	ACN 139 886 025 PTY LTD	3,859,299	0.35
18.	MR JAMES BEYER	2,891,267	0.26
19.	MR TIMOTHY BRYCE KLEEMANN	2,154,000	0.20
20.	CROSSWIND TRUSTEE COMPANY LIMITED <CROSSWIND A/C>	2,000,000	0.18
	Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)	**874,228,232**	**79.72**
	Total Remaining Holders Balance	**222,334,284**	**20.28**
	Total Issued Ordinary Shares	**1,096,562,516**	**100.00**

(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	% of Current Issued Shares
1.	APAC Resources Limited and its subsidiaries	323,780,746	29.53%
2.	Allied Properties Investments (1) Company Limited and its related corporate entities	323,780,746	29.53%
	Note: Substantial shareholdings 1 and 2 are not cumulative and arise through common shareholdings.		
3.	Shougang Corporation and Shougang Concord International Enterprises Company Limited and each of their controlled entities	154,166,874	14.05%
4.	Shougang Fushan Resources Group Limited, True Plus Limited and its subsidiaries	154,166,874	14.05%
	Note: Substantial shareholdings 3 and 4 are not cumulative and arise through common shareholdings.		

(d) Voting rights

All ordinary Shares carry one vote per Share without restriction.

No voting rights attach to options.

(e) Schedule of interests in mining tenements

Location	Tenement	Status	Percentage Held
Tenements Held by MGX			
Extension Hill	L70/133	Live	100%
Extension Hill	G70/232	Live	100%
Extension Hill	G70/238	Live	100%
Koolan Island	M04/416-I	Live	100%
Koolan Island	M04/417-I	Live	100%
Koolan Island	E04/1266-I	Live	100%
Koolan Island	L04/29	Live	100%
Koolan Island	L04/68	Live	100%
Koolan South	E04/1407-I	Live	100%
Piawaning	E70/4510-I	Live	100%
Silver Hills	E70/4670	Live	100%
Tallering Peak	M70/1062-I	Live	100%
Tallering Peak	M70/896-I	Live	100%
Tallering Peak	E70/3732	Pending	100%
Tallering Peak	L70/60	Live	100%
Tallering Peak	L70/69	Live	100%
Tallering Peak	L70/73	Live	100%
Tallering Peak	L70/74	Live	100%
Tallering Peak	G70/192	Live	100%

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

Location	Tenement	Status	
MGX Has Interests In			
Tallering Peak	G70/201	Live	100%
Tallering Peak	G70/202	Live	100%
Tallering Peak	G70/203	Live	100%
Tallering Peak	G70/204	Live	100%
Tallering Peak	G70/205	Live	100%
Wellstead	E70/4424	Live	100%
Extension Hill[1]	M59/339-I	Live	
Extension Hill[1]	M59/338-I	Live	
Extension Hill[1]	M59/454-I	Live	
Extension Hill[1]	M59/455-I	Live	
Extension Hill[1]	M59/550-I	Live	
Extension Hill[1]	M59/526-I	Live	
Extension Hill[1]	M59/609-I	Live	
Extension Hill[1]	L59/63	Live	
Extension Hill[1]	G59/30	Live	
Extension Hill[1]	G59/31	Live	
Extension Hill[1]	G59/45	Live	
Extension Hill[1]	G59/33	Live	
Extension Hill[1]	G59/34	Live	
Extension Hill[1]	G59/35	Live	
Extension Hill[1]	G59/36	Live	
Extension Hill[1]	G59/41	Live	
Fields Find[1]	E59/1938-I	Live	
Fields Find[1]	E59/1939-I	Live	
Fields Find[1]	E59/1940-I	Live	
Fields Find[1]	E59/1984	Live	
Fields Find[1]	E59/1268-I	Live	
Fields Find[1]	M59/63-I	Live	
Fields Find[1]	P59/1997-I	Live	
Fields Find[1]	P59/1998-I	Live	
Fields Find[1]	P59/1991	Live	
Fields Find1	P59/2035	Live	
Fields Find[1]	E59/1996	Live	
Fields Find[1]	E59/1997	Live	
Fields Find[1]	E59/2064	Live	
Fields Find[1]	E59/2065	Live	
Fields Find[1]	E59/2066	Live	
Fields Find[1]	E59/2067	Live	
Shine[2]	M59/406-I	Live	
Shine[2]	M59/421-I	Live	
Shine[2]	M59/731-I	Live	

[1] Tenements are held by another party. MGX has rights to Hematite, Goethite and Limonite.
[2] Tenements are held by another party. MGX has rights to Iron on a portion of these tenements.

Notes

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Corporate Directory

All information correct as at 30 June 2017

Board of Directors

Lee Seng Hui
Chairman, Non-Executive Director

Alan Jones
Non-Executive Director

Li Shaofeng
Non-Executive Director

Russell Barwick
Non-Executive Director

Paul Dougas
Non-Executive Director

Simon Bird
Non-Executive Director

Kin Chan
Non-Executive Director

Company Secretary

David Stokes

Registered Office

Level 1, 2 Kings Park Road
West Perth 6005, Western Australia
Telephone: +61 8 9426 7500
Facsimile: +61 8 9485 2305
Email:
admin@mtgibsoniron.com.au
Website: www.mtgibsoniron.com.au

Solicitors

Herbert Smith Freehills
Level 36, QV1 Building
250 St George's Terrace
Perth 6000, Western Australia

Auditors

Ernst & Young
Ernst & Young Building
11 Mounts Bay Road
Perth 6000, Western Australia

Bankers

HSBC Bank Australia Ltd
188-190 St George's Terrace
Perth 6000, Western Australia

Stock Exchange Listing

The company's shares are listed on the Australian Securities Exchange.
ASX Code: MGX

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 8 9323 2033

Annual General Meeting of Shareholders

Scheduled to be held at **10.00am** on **8 November 2017** at City West Function Centre, 45 Plaistowe Mews, West Perth WA

Easy Access to Information

See our website at
www.mtgibsoniron.com.au
for all Company announcements, including quarterly reports and financial results. Shareholders or interested parties may also register to receive emailed updates shortly after the company makes any regular or major announcement.

www.mtgibsoniron.com.au