

HD Mount Gibson Iron Limited - December Quarterly Activities Report**WC** 2,472 words**PD** 30 January 2014**SN** ENP Newswire**SC** ENPNEW**LA** English**CY** (c) 2014, Electronic News Publishing. All Rights Reserved.**LP**

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'Mount Gibson has delivered an excellent performance in the first half of the 2014 financial year, achieving record six monthly sales and a record period-end cash balance of \$484 million,' said Chief Executive Officer Jim Beyer.

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'We remain on track to achieve our full year sales target of 9.0 to 9.5 million tonnes, notwithstanding some short term rain-related interruptions at Koolan Island. 'The first half of the year has proven to be an excellent one for cash generation, reflecting very strong sales, firm iron ore pricing and our ongoing efforts to increase productivity and reduce costs.

'Of equal satisfaction was the increase in our total reported Ore Reserves, which has added mine life and business value, and the green shoots of growth now emerging from our strategy to expand our exploration footprint and develop prospective ground around our existing assets in the Mid West and at Koolan Island. 'We achieved significant progress in this regard in the Mid West during the December quarter, undertaking our first exploration drilling programmes at both the Fields Find and Extension Hill South areas, and agreeing to acquire the advanced Shine hematite project.

'I am especially pleased to note FIRB's recent approval of the Shine acquisition in the context of our desire to continue to grow our business through both exploration and acquisition. 'We are confident this disciplined approach to growth will add significant value to the Company's business in both the short and long term.'

OPERATIONS

Ore sales in the December quarter totalled 2.5 million tonnes, increasing total sales for the six months ended 31 December 2013 by 15% to a record 5.1 million tonnes compared with the preceding six month period. Mount Gibson remains on track to achieve total ore sales of 9.0 to 9.5 million tonnes in the financial year ending 30 June 2014, consistent with guidance.

Koolan Island

Ore shipments from Koolan Island during the December quarter totalled 931,000 tonnes, including three shipments of Rizhao Special Product (RSP) totalling 202,000 tonnes. At the end of the quarter, crushed direct ship ore (DSO) stockpiles totalled approximately 65,000 tonnes, and uncrushed DSO stockpiles totalled approximately 165,000 tonnes.

Ore sales remained strong during the period, however total material movement declined by 12%, largely due to reduced fleet availability. To help address this, Mount Gibson brought forward by six months the replacement of three haul trucks which were mobilised to site in late December. In addition, ore production was impacted in the short term by heavy rain related to Cyclone Christine in late December. The cyclone did not directly cross Koolan Island, however the site experienced heavy rain over several days including approximately 600 millimetres in a two day period. This resulted in temporary flooding of the Main Pit ore zone.

Access to all mining areas besides Main Pit was regained within 48 hours of the rain stopping. Ore continues to be mined from Acacia East, with waste mining in Main Pit continuing at elevated rates. Mining access to ore in Main Pit is expected by the end of January. This weather-related interruption is

not expected to have any material impact on forecast sales and Mount Gibson reaffirms its sales guidance of 9.0 to 9.5 **million** tonnes for the 2014 financial year.

Average unit cash **mining** costs for the quarter remained within guidance of \$8-10 per tonne moved but were higher than in the prior quarter due to the lower fleet availability and wet season impacts as described above. Notably, average unit cash **mining** costs remained in the lower half of the guidance range over the half-year to 31 December.

Mining costs are expected to resume a downward trend in the second half as equipment availability and volume movement increases. Mount Gibson is maintaining its guidance for Koolan **Island's** unit cash **mining** costs as **mining** volumes increase to targeted levels in line with the ramp-up schedule.

Koolan **Island's** new vehicle workshop and centralised administration facility, which form part of the new Mine **Operations** Centre (MOC), became fully operational in the quarter. Both facilities will deliver time and efficiency benefits. As a result of the advance of the Acacia East pit, the warehouse and stores facilities are also planned to be relocated to the MOC in the current half year. This is expected to deliver further efficiencies.

Mid West **Operations**

Mount Gibson's **operations** in the Mid West delivered another strong performance with combined sales from Extension Hill and Talling Peak totalling approximately 1.6 **million** tonnes, slightly higher than the preceding quarter. Tonnes railed to Geraldton totalled approximately 1.4 **million** tonnes, and no mine-gate sales were made in the period.

Extension Hill Hematite Mine

Consistent with the continued strategy of reducing stockpiles, both **ore mining** and crushing reduced in comparison with the preceding quarter. **Ore mining** for the December quarter totalled 385,000 tonnes, a planned 30% decrease on the September quarter as **mining** primarily occurred within the higher strip-ratio central pit zone. Total material movement was in line with the previous quarter at just over 1 **million** tonnes.

Total tonnes crushed in the quarter decreased by 20% to 573,000 tonnes, with road haulage steady at 656,000 tonnes. Rail haulage to the Geraldton Port was also similar to the prior quarter at 640,000 tonnes. Shipments totalled 667,000 tonnes in the quarter, comprising 370,000 tonnes of lump and 297,000 tonnes of fines.

At the end of December, approximately 140,000 tonnes of crushed finished product was stockpiled at the mine, a reduction of 35% from the prior quarter. Uncrushed product stockpiled at the mine totalled approximately 180,000 tonnes, showing a drawdown of 49% from the previous quarter. Mine-**site** stockpiles of uncrushed lower grade material totalled 1.9 **million** tonnes at the end of the quarter.

Crushed **ore** stockpiles at the Perenjori rail siding totalled approximately 159,000 tonnes, showing a decrease of 4% from the previous quarter.

Talling Peak

Talling Peak continued to perform very well in the December 2013 quarter. Safety performance was of special note with the **site** recording 483 consecutive days without a Lost Time Injury (LTI) by the end of the period. This outstanding performance has continued, with the **site** passing 500 days LTI-Free on 17 January. The mine also delivered strong sales during the period. Total shipments for the quarter increased 17% to 895,000 tonnes compared with the previous quarter.

Development works were completed for the T1 pit, while **mining** in the main T6 pit approaches completion in the current March quarter. **Ore** production of 484,000 tonnes was 20% lower than the previous quarter reflecting a focus on accelerated waste development in the T1 pit, with total material movement consistent with the previous quarter at 1.6 **million** tonnes.

Crusher throughput was optimised to meet shipping requirements with 18% more tonnes crushed than mined due to the continued planned drawdown of **ore** stockpiles. At the end of December, approximately 130,000 tonnes of crushed standard product, and 58,000 tonnes of crushed lower grade **ore** were stockpiled at the mine, in addition to stockpiles of approximately 92,000 tonnes of uncrushed standard product.

Uncrushed stocks of low grade **ore** at the mine totalled approximately 215,000 tonnes. At the Mullewa rail siding, stockpiles of crushed standard product totalled approximately 96,000 tonnes, while stockpiles of crushed low grade material totalled approximately 382,000 tonnes.

EXPLORATION AND RESOURCE DEVELOPMENT

Annual Mineral Resources and Ore Reserves Statement

During the quarter, Mount Gibson released its annual statement of Mineral Resources and Ore Reserves as at 30 June 2013. As at 30 June 2013, total Group Mineral Resources were estimated at 88.6 million tonnes grading 61.9% Fe, and total Group Ore Reserves were estimated at 45.2 million tonnes grading 62.1% Fe. This compares with Group Ore Reserves at 30 June 2012 of 44.3 million tonnes grading 62.6% Fe.

Increasing total Ore Reserves in excess of mine depletion was a substantial positive achievement by the Company. This increase has added mine life and demonstrates the benefits of Mount Gibson's ongoing focus on resource optimisation and exploration to grow ore reserves at its existing operations.

Koolan Island

West End

As reported previously, extensive mapping and rock chip sampling was conducted over a number of iron-prospective targets on the West End of Koolan Island in the September quarter. Significant hematite mineralization and iron rich sandstone units were mapped and correlated with drill intercepts from a prior Reverse Circulation (RC) drill programme that was conducted in 2011.

During the December quarter, Mount Gibson completed planning for a RC drill programme comprising 33 holes to test identified extension of hematitic sandstone mineralization identified. A Programme of Work application was submitted in December with a view to commencing drilling in the June quarter of 2014, after the conclusion of the wet season.

Mid West

Extension Hill South

Based on detailed reviews of past exploration data from the area immediately south of the Extension Hill open pit mine, Mount Gibson considers the Extension Hill South area to have the most exciting near-mine exploration potential for iron ore in the Mid West. Drilling commenced at Iron Hill in early December 2013, with a programme of 68 RC holes totaling 1,701 metres completed by the end of the period. This represents the first drilling at Iron Hill since 2004.

Mount Gibson will provide an update on progress at Iron Hill once it has received and interpreted all results from this initial drilling programme. Preliminary planning has commenced for further drilling, subject to the receipt of necessary approvals.

Fields Find

The Fields Find project area is located 60 kilometres north of the Company's Extension Hill mine. The 250 sqkm tenement package includes the Plateau iron prospect, an iron-enriched ultramafic laterite occurrence, where iron intercepts were recorded in very limited drilling by a previous operator.

An initial RC drilling programme comprising 228 holes was completed at Plateau during the December quarter. A detailed update on the results of this programme were released to the ASX on 21 January 2013.2 A total of 114 significant intersections grading in excess of 50% Fe were returned, with significant intercepts in 104 individual holes, representing 46% of all holes completed. This represents a high success rate for a greenfields exploration programme and covers only approximately 5% of the prospect area.

The results confirmed Mount Gibson's conceptual geological model for the Plateau target, and have also indicated better than anticipated continuity of mineralization. The Company considers the results to date to be encouraging and to support the potential to delineate an iron Mineral Resource at the Plateau prospect. Pending approvals, further drilling is planned for March and April 2014 to test the lateral extents of the iron mineralization identified to date.

Agreement to acquire advanced Shine hematite project

On 9 December 2013, Mount Gibson announced an agreement to acquire the advanced Shine hematite project from Gindalbie Metals Ltd for \$12 million up-front plus a price participation royalty of which \$3 million will be prepaid upon first ore shipments. Full details of the terms of the acquisition are outlined in the Company's ASX release dated 9 December 2013.

The proposed **acquisition** is consistent with Mount Gibson's strategy to grow its exploration and **mining** footprint around its existing Mid West **iron ore operations** and transport infrastructure. Gindalbie has previously reported a Hematite Mineral Resource (Measured, Indicated and Inferred categories) for the Shine deposit comprising 6.1 **million** tonnes grading 59.8% Fe, located approximately 250km east of Geraldton, and 85km north-north-west of Mount Gibson's operating Extension Hill mine.

The project is well advanced in terms of feasibility evaluation, mine planning and permitting. Given Shine's advanced state, and proximity to the **Company's** existing Mid West **operations** and infrastructure, Mount Gibson considers it to have excellent potential for near term low-capex development that can partly offset the scheduled closure of the **Company's** Talling Peak mine in the second half of 2014.

Subsequent to the end of the quarter, Mount Gibson was notified by the Australian Foreign Investment Review **Board** that it has no objections to the **acquisition**. Settlement is anticipated within the current March quarter, on satisfaction of outstanding conditions relating to other relevant third party consents. Mount Gibson expects to be able to provide more detailed information regarding the future development of Shine, including any indicative timeline, after settlement.

CORPORATE

Mount Gibson achieved an average realised fines price, excluding sales of RSP, of US\$108 per dry metric tonne Free on **Board** (FOB) during the December quarter. The December quarter average Platts CFR price (where the **iron ore** supplier pays freight costs) for 62% Fe fines delivered to **China** was US\$135/dmt. Cash and term deposits totalled \$484 **million** (\$0.44 per share) at 31 December 2013, an increase of \$64 **million** compared with \$420 **million** at 30 September 2013. This is a record period-end cash balance for the **Company**.

The quarter-end cash total was recorded after payments in the December quarter for dividend distributions of \$22 **million**, corporate tax of \$24 **million**, \$13 **million** for the **purchase** of three new haul trucks and ancillary equipment at Koolan **Island**, and \$4 **million** for the successful resolution of a historical construction works contract claim.

The **Company** chose to **purchase** the new haul trucks outright after assessing the **purchase** against the relative cost of lease finance. Similar cash **purchases** were made of ancillary equipment in order to replace hired items and further reduce operating expenses. The **Company** will continue to evaluate **purchases** against lease financing as it progressively replaces the Koolan **Island mining** fleet over the next three years. This may involve a mix of lease financing and/or outright cash **purchases** depending on the comparative financial benefits and other capital demands.

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Mount Gibson will host an analysts/institutions teleconference at 13:00pm AEDT on 22 January 2014. Investors will be able to listen in to the teleconference by dialling 1800 857 029 immediately prior to the scheduled start time and entering the access code 61492002# at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1800 857 079 (Australian callers) or +613 8788 6028 (overseas callers).

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