Mount Gibson Iron

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SUBJECT: MOUNT GIBSON IRON RELEASES FINANCIAL PARAMETERS OF ITS IRON PELLET PROJECT IN CHINA

Mr Brian Johnson, Managing Director of Mount Gibson Iron Limited (ASX Code “MGX”), advises that after a series of meetings in China over the past few weeks, he is confident that subject to approvals being in place, development of 61% owned subsidiary Asia Iron Holdings Limited’s (“Asia Iron”) 5.0Mtpa iron pellet project in Nanjing would proceed before the end of 2005 and be commissioned in early 2007.

Agreements for the 50:50 joint venture between Asia Iron and the Nanjing Iron & Steel Group, are in final draft form and should be signed by the end of April 2005. Offtake agreements for Asia Iron’s allocation of 2.5Mtpa of pellets are currently being negotiated with two major trading companies and two regional steel mills.

The current bankable feasibility study is programmed for completion at the end of August 2005.

Detailed engineering for the two 2.5Mtpa pellet plants to be constructed at the port of Longtan on the Yangtze River near Nanjing, and for the 5.0Mtpa crusher and concentrator at the Extension Hill mine (Mt Gibson) will commence in September 2005, with long lead supply items being ordered at that time.

A summary of the preliminary financial analysis of the project is set out on the attached table. The financial analysis has been prepared internally by Asia Iron based on primary inputs from independent consultants engaged in the preparation of the current bankable feasibility study but may change over the next five months as the study progresses.

The financial model for the project is based on a 78 cents exchange rate to the US$ and is extremely robust considering the contracted sales price for blast furnace pellets delivered to stockpile in Nanjing is US$95.0 per tonne. The current price for pellets delivered to the same location from Brazil is approximately US$115 per tonne with spot prices much higher.

A particular commercial advantage in Asia Iron producing pellets in China is that as a foreign investor the company will pay no tax for the first three years of production, 7½% for the following two years, and only 15% thereafter. Under recently revised Australian tax laws, Mount Gibson Iron will not be liable for tax on the differential between Chinese and Australian tax rates, or on dividends, or on capital gains if the shares in Asia Iron are ever sold.

As a result of these tax advantages, it is expected strong early cash flows from the project will result in a pay back of total funds invested, including borrowings, in less than four years.

To give greater certainty to financial results in the early stages of the project, the sales price of pellets supplied to both Nanjing Iron & Steel and to Asia Iron's customers will be fixed for the first four years of production albeit at a rate lower than current international prices. Thereafter, prices will be adjusted annually to published prices ex CVRD Brazil which is the international price setter for pellets.

Asia Iron has also committed the shipping of 2.5Mtpa of concentrate from Geraldton to Longtan for the first four years of production with a major Scandinavian shipping group, at an extremely attractive fixed rate.

A second contract for the 2.5Mtpa balance of concentrate in being negotiated with Chinese shipping companies.

Asia Iron will be required to contribute $93 million equity to the project. Of this amount approximately $13.0 million has already been provided. A further $25 million will be provided from unsecured advances against pellet purchases made by long term buyers of Asia Iron's share of production.

At this stage Mount Gibson Iron anticipates providing Asia Iron with a further A$55 million of capital ($1.5 million in April 2005 and $53.5 million in December 2005 provided the project remains on schedule) and on this basis Mount Gibson Iron will move to a 75% shareholding in Asia Iron with the balance held by founding Directors and their associates.

Mount Gibson Iron Limited will have a cash balance of approximately $35.0 million following receipt of funds from the share placement announced earlier today, and with approximately $6.0 million of options expected to be converted before expiry in October 2005 and anticipated retained earnings to the end of this year, further share issues to provide the $53.5 million to Asia Iron in December 2005 should not be necessary.

The Company has also established the fee for managing the Extension Hill magnetite mine on behalf of Asia Iron and its partner, at $3.50 per tonne of concentrate produced which will be indexed to CPI and should commence early 2007 ($17.5 million per year at 5.0Mtpa production).

With the project management team and commercial arrangements for the joint venture basically in place, the Company is now focusing on transport options for the magnetite concentrate from Mt Gibson to Geraldton, and the necessary improvements to port infrastructure.

In the event railing proves the best transport option, one of Mount Gibson Iron's substantial shareholders, which is a subsidiary of the Chinese Ministry of Railways, will assist in the procurement at competitive prices, of the rail and sleepers necessary to upgrade the existing MidWest rail network, together with international standard locomotives and wagons.

Preliminary discussions have also been held with a major Chinese pipeline contractor with a view to them constructing a pipeline and return water line on a build, own, operate, and transfer basis, for the alternative transport of concentrate in slurry form.

The pipeline route has already been established and negotiations commenced with stakeholders to establish a pipeline corridor between the Port and Mt Gibson. Specialist slurry pipeline designers from the United States have provided preliminary engineering and construction estimates.

The Company is also in constructive discussions with the Geraldton Port Authority in relation to the facilities required to permit the efficient handling and shiploading of 5.0Mtpa of magnetite concentrate.

Mr Johnson said that he was confident the Company's management was capable of successfully delivering the Asia Iron pellet project, and the gains to Mount Gibson Iron should be substantial over the 20 year project life.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

John Arbuckle
Company Secretary

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FINANCIAL SUMMARY – NANJING IRON PELLET PROJECT JOINT VENTURE

<u>**JOINT VENTURE**</u>		**A$MIL**
CAPITAL COSTS		
Acquisition Costs Of Mining Leases		13.4
Capital Costs Mine Development And Pellet Plants (Including 10% Contingency)		372.0
Feasibility Study		15.0
Project Management		10.0
Interest During Construction		12.0
Working Capital		40.0
	TOTAL	**462.4**
PROPOSED FUNDING		
Equity		
- Nanjing Iron & Steel Group		93.0
- Asia Iron		93.0
Project Finance		276.4
	TOTAL	**462.4**
KEY FINANCIAL OUTCOMES		
Annual Sales, First Stabilised Year Of Production (2008) (based on 5.0 Mtpa at US$95/tonne with 78 cent exchange rate)		**609.0**
Annual Operating Profit After Tax – refer Estimated Operating Costs (Average Over Life of Operations)		**150.0**

<u>**MOUNT GIBSON IRON SHARE**</u>

37.5% SHARE OF ANNUAL OPERATING PROFIT AFTER TAX (AVERAGE OVER LIFE OF OPERATIONS)	**56.2**
ANNUAL ROI OVER LIFE OF OPERATIONS (BASED ON 37.5% SHARE OF ANNUAL OPERATING PROFIT AFTER TAX)	**82.6%**

ESTIMATED OPERATING COSTS – NANJING IRON PELLET PROJECT JOINT VENTURE
(Life of Project – 20 years)

		A$ per tonne of Pellets
Mining		10.09
Concentrating		9.63
Rail Transport		16.38
Ship Loading		4.19
Management Fee		3.50
Administration		0.75
Royalties		2.50
	COSTS FOB GERALDTON	**47.04**
Shipping and Port Unloading		25.52
	COSTS CIF LONGTAN	**72.56**
Pelletising		6.70
Administration		1.55
		80.81
Capital Cost Recovery		5.49
Interest		0.50
Taxation		4.98
	TOTAL COSTS	**91.78**
Income		121.79
Operating Profit After Tax		**30.01**
		A$MIL
Annual Operating Profit After Tax (5.0 Mt)		**150.0**