



MOUNT GIBSON IRON LIMITED

ACN 008 670 817

NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

**FOR THE
ANNUAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON
WEDNESDAY, 21 NOVEMBER 2007
AT CITY WEST FUNCTION CENTRE
45 PLAISTOWE MEWS, CITY WEST CENTRE, WEST PERTH, 6005
AT 2.30 PM.**

IMPORTANT INFORMATION

This is an important document that should be read in its entirety.
If you do not understand it, or any part of it,
you should consult with your professional advisers without delay.

You are encouraged to attend the meeting, but if you cannot, you are requested to complete and return the enclosed Proxy Form without delay to

**Computershare at GPO Box D182, Perth, WA 6840
or by facsimile on facsimile number (+61 08) 9323 2033**

NOTICE OF THE ANNUAL GENERAL MEETING
MOUNT GIBSON IRON LIMITED
ACN 008 670 817

Notice is hereby given that the Annual General Meeting of the Shareholders of Mount Gibson Iron Limited ("Mount Gibson" or the "Company") will be held on the date and at the location and time specified below:

DATE: Wednesday, 21 November 2007
LOCATION: City West Function Centre,
45 Plaistowe Mews, West Perth WA 6005
TIME: 2.30 pm (Perth, WA time)

ORDINARY BUSINESS

FINANCIAL REPORTS

To receive and consider the financial report and the Directors' and auditors' reports for the year ended 30 June 2007.

RESOLUTION 1: Re-election of Director – Craig Readhead

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Craig Readhead, being a Director who retires by rotation in accordance with Clause 3.6 of the Company's Constitution, and being eligible, is re-elected as a Director of the Company."

RESOLUTION 2: Election of Director – Neil Hamilton

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Neil Hamilton, having been appointed as a Director since the last annual general meeting and who retires in accordance with Clause 3.3 of the Company's Constitution, and being eligible, is re-elected as a Director of the Company."

RESOLUTION 3: Election of Director – Mark Horn

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Mark Horn, having been appointed as a Director since the last annual general meeting and who retires in accordance with Clause 3.3 of the Company's Constitution, and being eligible, is re-elected as a Director of the Company."

RESOLUTION 4: Adoption of Remuneration Report

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That the Remuneration Report for the Company (included in the Report of the Directors) for the year ended 30 June 2007 be adopted."

Please note whilst the Corporations Act requires this resolution to be put to the vote, the resolution is advisory only and does not bind the Directors or the Company. A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

SPECIAL BUSINESS

RESOLUTION 5: Increase in the maximum aggregate remuneration of Non-Executive Directors

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, for purposes of rule 10.2 of the Company's Constitution, Listing Rule 10.17 and for all other purposes, the maximum aggregate remuneration payable by the Company to Non-Executive Directors as Directors' fees be increased by \$450,000 from \$300,000 per annum to \$750,000 per annum."

The Company will disregard any votes cast on this resolution by the Directors and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the Proxy Form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 6: Issue of Performance Rights – Luke Tonkin (Managing Director)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, for all purposes including for the purposes of ASX Listing Rule 10.14, approval is given to grant performance rights to Mr Tonkin in respect of the financial years ending 30 June 2008, 2009 and 2010 on the terms set out in his employment agreement with the Company and the Mount Gibson Iron Limited Performance Rights Plan, as more fully described in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by the Directors and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the Proxy Form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 7: Issue of Performance Rights – Alan Rule (Alternate Director for Mr Luke Tonkin)

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, for all purposes including for the purposes of ASX Listing Rule 10.14, approval is given to grant performance rights to Mr Rule in respect of the financial years ending 30 June 2008, 2009 and 2010 on the terms set out in his employment agreement with the Company and the Mount Gibson Iron Limited Performance Rights Plan, as more fully described in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by the Directors and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the Proxy Form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

RESOLUTION 8: Amendment to Constitution

To consider and, if thought fit, to pass the following resolution as a special resolution:

"That, the Company's Constitution be amended by deleting the words 'the Company must not charge any fee on transfer of a share' from rule 29.1."

EXPLANATORY MEMORANDUM

Shareholders are referred to the Explanatory Memorandum accompanying and forming part of this Notice of Meeting.

ENTITLEMENT TO VOTE

The Company has determined that under the Corporations Regulations 2001 (Cth) regulation 7.11.37, for the purposes of the Annual General Meeting, shares will be taken to be held by the persons who are the registered holders at 5.00 pm (Perth, WA time) on Monday 19 November 2007. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

PROXIES

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has the right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purposes of receipt of proxy appointments:

In person: Level 1, 7 Havelock Street, West Perth

By Mail : GPO Box D182, Perth, WA 6840

By facsimile: (08) 9323 2033

Each member entitled to attend and vote at the Meeting has the right to appoint a proxy to attend and vote at the Meeting on his behalf. The member may specify the way in which the proxy is to vote on each resolution or may allow the proxy to vote at his discretion. The instrument appointing the proxy must be received by the Company at the address notified by the Company at least 48 hours prior to the time of the commencement of the Meeting.

If you wish to discuss any aspects of this document with the Company, contact the Company Secretary, Angela Dent on telephone +61 8 9426 7500.

BY ORDER OF THE BOARD

Angela Dent

Company Secretary

DATED: **8 October 2007**

EXPLANATORY MEMORANDUM

MOUNT GIBSON IRON LIMITED

ACN 008 670 817

This Explanatory Memorandum has been prepared to assist Shareholders to understand the business to be put to Shareholders at the forthcoming Annual General Meeting.

ORDINARY BUSINESS

FINANCIAL REPORTS

The Corporations Act 2001 (Cth) ("Corporations Act") requires:

- the reports of the Directors and auditors; and
- the annual financial report, including the financial statements of the Company for the year ended 30 June 2007,

to be laid before the Annual General Meeting. Neither the Corporations Act nor the constitution requires a vote of Shareholders on the reports or statements. However, Shareholders will be given an opportunity to raise questions or comments on the management of the Company.

Also, a reasonable opportunity will be given to Shareholders as a whole at the meeting to ask the Company's auditor questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the auditor in relation to the conduct of the audit.

RESOLUTION 1: Re-election of Craig Readhead

Mr Readhead retires by rotation and, being eligible, offers himself for re-election. Mr Readhead was appointed a Non-Executive Director by the Board on 21 December 2001.

Mr Readhead has spent the last 25 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. He has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is currently Chairman and a Non-Executive Director of Heron Resources Ltd and Halcyon Group Ltd. During the past three years, Mr Readhead has also served as a Director of Pioneer Nickel Ltd, New World Alloys Ltd, Frankland River Olive Company Limited and Agincourt Resources Ltd.

The Directors (other than Mr Readhead) recommend that Shareholders vote **IN FAVOUR** of resolution 1. Mr Readhead, who has an interest in the outcome of resolution 1, declines to make a recommendation.

RESOLUTION 2: Election of Director – Neil Hamilton

Mr Hamilton was appointed as Non-Executive Chairman by the Board on 24 April 2007. Under the Company's constitution he holds office only until this meeting and therefore offers himself for election.

Mr Hamilton is a lawyer with more than 23 years experience as a director of public companies. Mr Hamilton has overall responsibility for corporate governance for Mount Gibson. Mr Hamilton is the Chairman of IRESS Market Technology Limited and Non-Executive Director of Insurance Australia Limited and Programmed Maintenance Services Ltd. He was formerly the Chairman of Western Power Group. During the past three years Mr Hamilton has served as a director of Chieftan Securities Limited and Sons of Gwalia Ltd.

The Directors (other than Mr Hamilton) recommend that Shareholders vote **IN FAVOUR** of resolution 2. Mr Hamilton, who has an interest in the outcome of resolution 2, declines to make a recommendation.

RESOLUTION 3: Election of Director – Mark Horn

Mr Horn was appointed a Non-Executive Director by the Board on 30 June 2007. Under the Company's constitution he holds office only until this meeting and therefore offers himself for election.

Mr Horn is the Chief Executive of M. Horn & Co., a British corporate finance boutique regulated by the FSA. Mr Horn is also the Chairman of ReSel Communications Ltd, a Director and General Council of Lakeshore Capital, and a Non-Executive Director of Bretton Resource Opportunities Fund Ltd, Bretton Capital Strategies SPC, and Dikorwe C.C. Mr Horn is also a member of the Lincolnshire County Council and Bourne Town Council, and serves as a Governor of Bourne Grammar School and Robert Manning Technology College. During the past three years Mr Horn has also served as a Director of AIM2 plc.

The Directors (other than Mr Horn) recommend that Shareholders vote **IN FAVOUR** of resolution 3. Mr Horn, who has an interest in the outcome of resolution 3, declines to make a recommendation.

RESOLUTION 4: Adoption of Remuneration Report

The Remuneration Report is set out in the Report of the Directors in the Company's 2007 Annual Report.

The Corporations Act requires companies to put a resolution to their Shareholders that the Remuneration Report be adopted. Under section 250R(3) of the Corporations Act, the vote on the resolution is advisory only and does not bind the Directors or the Company.

RESOLUTION 5: Increase in the maximum aggregate remuneration of Non-Executive Directors

Rule 10.2 of the Company's Constitution and ASX Listing Rule 10.17 require that the Company must not increase the maximum amount of Non-Executive Directors' fees payable without the approval of Shareholders.

The Company had previously set a cap for Non-Executive Director's fees of \$300,000 per annum. Resolution 5 seeks Shareholder approval to increase the maximum aggregate Directors' fees payable by the Company to its Non-Executive Directors (as a whole) for their services by \$450,000 to \$750,000 per annum.

The total level of fees set at a limit of \$750,000 under resolution 5 is considered desirable to ensure the Company is able to attract and retain Directors whose skills and qualifications are appropriate for a company given the size and nature of Mount Gibson's activities. Significantly, Mount Gibson's market capitalisation has increased by more than 500% in the last 2 years. Furthermore, in April 2007, the Board was restructured with an additional Non-Executive Director appointed to the Board.

The responsibilities and obligations of Directors are continually increasing as a result of the growing emphasis in today's corporate environment on corporate governance. These increased responsibilities and obligations have necessitated an increase in the general level of remuneration paid to Non-Executive Directors in order to attract the right calibre of person to serve in this role.

It is not proposed that the full amount of the \$750,000 to be approved by Shareholders will be utilized. The proposed limit is requested to provide flexibility for further increases should circumstances or the size of the Board change.

The Directors have refrained from making a recommendation for voting on resolution 5.

RESOLUTIONS 6 and 7: Issue of Performance Rights – Luke Tonkin (Managing Director) and Alan Rule (Alternate Director for Luke Tonkin)

Mr Tonkin and Mr Rule (the "Executives") were respectively appointed as Managing Director and Finance Director (now Chief Financial Officer and Alternate Director) of the Company under executive employment agreements with the Company in 2005. Since that time, the Company has undergone a period of substantial growth resulting in changes to both the size and nature of the Company's operations. The Board has therefore sought and obtained advice from a remuneration consultant with a view to restructuring the Executives' employment agreements, to bring them in line with market practice and to ensure that their remuneration is appropriately linked to the Company's performance.

As a result of this review, the Company has entered into revised employment agreements with the Executives and established the Mount Gibson Iron Limited Performance Rights Plan ("Plan") to provide its executives long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives.

Under his revised employment agreement, Mr Tonkin is entitled to receive a base salary of \$550,459 per annum plus superannuation; a variable remuneration component in the form of a short-term incentive discretionary bonus of up to one third of his base salary; and a long term incentive component in the form of the grant of "performance rights" under the Plan (subject to any requisite shareholder approvals first being obtained).

Under his revised employment agreement, Mr Rule is entitled to receive a base salary of \$412,844 per annum plus superannuation; a variable remuneration component in the form of a short-term incentive discretionary bonus of up to one third of his base salary; and a long term incentive component in the form of the grant of "performance rights" under the Plan (subject to any requisite shareholder approvals first being obtained).

Under the Plan, the Board has the discretion to grant "performance rights" to any person it declares eligible upon the terms set out in the Plan and upon such additional terms and performance conditions as the Board determines. A performance right is, in effect, a contractual right to be issued with a fully paid ordinary share in the Company ("Share") on the satisfaction of certain conditions.

Under their revised employment agreements, the Company has agreed, subject to any requisite shareholder approvals first being obtained, to invite the Executives to apply for performance rights for each successive financial year during the term of their employment. The number of performance rights for which each Executive will be invited to apply will be determined in accordance with the following formula:

$$P = \frac{1}{3} \times \frac{S}{VWAP}$$

Where:

'P' is the whole number of performance rights under the Plan for which the Executive will be invited to apply;

'S' is the sum of the Executive's salary and superannuation payable for the applicable period; and

'VWAP' is the 30 day volume weighted average price of ordinary shares in the Company on ASX for the month ended 30 June for the relevant financial year.

In respect of the current financial year ended 30 June 2008, subject to Shareholders approving resolutions 6 and 7 respectively:

- Mr Tonkin will be invited to apply for 161,681 performance rights; and
- Mr Rule will be invited to apply for 121,261 performance rights.

The terms of these performance rights are set out below.

ASX Listing Rules

ASX Listing Rule 10.14 provides that a company must not permit a Director to acquire securities under an employee incentive scheme (such as the Plan) without the prior approval of holders of ordinary securities.

Accordingly:

- under resolution 6, approval is sought pursuant to ASX Listing Rule 10.14 for the grant of 161,681 performance rights to Mr Tonkin in respect of the current financial year ended 30 June 2008 and all other performance rights to be granted to Mr Tonkin in respect of the financial years ended 30 June 2009 and 30 June 2010 on the terms set out in his employment agreement with the Company and the Plan.
- under resolution 7, approval is sought pursuant to ASX Listing Rule 10.14 for the grant of 121,261 performance rights to Mr Rule in respect of the current financial year ended 30 June 2008 and all other performance rights to be granted to Mr Rule in respect of the financial years ended 30 June 2009 and 30 June 2010 on the terms set out in his employment agreement with the Company and the Plan.

Terms of performance rights

All performance rights to be granted to the Executives under their employment agreements will be on terms consistent with the rules of the Plan.

The principal terms of the performance rights to be granted to the Executives in respect of the current financial year ended 30 June 2008 are as follows:

Grant of performance rights

Each performance right is an entitlement to one Share in the Company, subject to satisfaction of the performance and vesting conditions outlined below. The Executives will be allocated Shares equivalent to the number of performance rights which vest as at 30 June 2010 and 31 December 2010 ("Vesting Dates"), having regard to performance measured against the performance conditions outlined below.

Price of performance rights

No consideration is payable by the Executives at the time of grant of the performance rights or upon the allocation of Shares to which they may become entitled on the Vesting Dates.

Vesting conditions

Subject to rule 4 of the Plan, the performance rights will only vest if the Executive remains an employee of the Mount Gibson Group up to and including the relevant Vesting Date. The number of performance rights which vest on the Vesting Dates will be determined by reference to the extent to which the performance conditions are met as measured in respect of the period ending on the relevant Vesting Date.

Rule 4 of the Plan applies where the Executive ceases to be an employee of the Mount Gibson Group by reason of death, disability, bona fide redundancy or other reason with the approval of the Board. The Board has determined that rule 4 of the Plan will also apply where an Executive ceases to be an employee of the Mount Gibson Group prior to a Vesting Date for reasons other than termination of their employment by the Company for grave misconduct, serious or persistent breach of the terms of his employment contract or willful neglect in the discharge of his duties.

In these circumstances, the Board will determine the extent (if any) to which performance rights granted will vest, having regard to the level of satisfaction of the performance conditions over the period from the date of grant to the date of cessation of employment.

Performance conditions

The performance rights granted to the Executives will not vest (and the underlying Shares will not be issued) unless certain performance conditions have been satisfied.

The grant of performance rights is designed to reward long term sustainable business performance measured by relative total shareholder return ("TSR") performance conditions over the three year period of 1 July 2007 through to 30 June 2010, with an opportunity for the performance conditions to be re-measured six months later as at 31 December 2010 in respect of any performance rights which do not vest on 30 June 2010.

The performance conditions will be measured as at each Vesting Date by comparing the Company's TSR with that of a comparator group of resource companies over the relevant period commencing on 1 July 2007.

The performance rights will vest depending on the Company's percentile ranking within the comparator group on the relevant Vesting Date as follows:

- If the Company ranks below the 51st percentile, none of the performance rights will vest.
- If the Company ranks at the 51st percentile, 50% of the performance rights will vest.
- For each 1% ranking above the 51st percentile, an additional 2% of the performance rights will vest, with 100% vesting where the Company ranks at or above the 76th percentile.

If none or only some of the performance rights vest as at 30 June 2010, the performance conditions will be re-measured six months later for the period 1 July 2007 to 31 December 2010 in respect of the unvested performance rights.

Restrictions

Any Shares allocated to an Executive upon vesting of performance rights may not be sold, transferred or otherwise dealt with by him unless the Board approves an application for release of the Shares, but in any event such restrictions will apply for no longer than 10 years from the date of grant of the performance rights.

ASX Listing Rule 10.15A

In accordance with ASX Listing Rule 10.15A:

- Mr Tonkin is the Managing Director of the Company. Mr Rule has been appointed as an alternate director to Mr Tonkin and may act in the capacity of a Director from time to time.
- Subject to Shareholder approval being obtained, the maximum number of performance rights (and hence the maximum number of Shares) which the Company will issue Mr Tonkin is 161,681 in respect of the current financial year ended 30 June 2008. The maximum number of performance rights (and hence Shares) that the Company may issue to Mr Tonkin in respect of the financial years ending 30 June 2009 and 30 June 2010 will be determined in accordance with the terms of his employment agreement as described above.
- Subject to Shareholder approval being obtained, the maximum number of performance rights (and hence the maximum number of Shares) which the Company will issue Mr Rule is 121,261 in respect of the current financial year ended 30 June 2008. The maximum number of performance rights (and hence Shares) that the Company may issue to Mr Rule in respect of the financial years ending 30 June 2009 and 30 June 2010 will be determined in accordance with the terms of his employment agreement as described above.
- No consideration is payable by the Executives at the time of grant of the performance rights or upon the allocation of Shares to which they may become entitled on the Vesting Dates.
- Since its adoption by the Company, no persons have been received performance rights or any other securities under the Plan.
- The following persons will be entitled to participate in the Plan:
 - (a) Mr Luke Tonkin and Mr Alan Rule; and
 - (b) any other person the Board may from time to time in its absolute discretion declare eligible.
- No loans will be made by the Company in connection with the acquisition of performance rights by the Executives.
- Details of any performance rights and/or Shares issued under the Plan will be published in each Annual Report of the Company relating to the period in which performance rights or Shares have been issued, and that approval for the issue of Shares was obtained under Listing Rule 10.14.
- Any additional persons who become entitled to participate in the Plan after the resolution is approved who are not named in the Notice of Meeting will not participate until approval is obtained under Listing Rule 10.14 (if approval is required under that Listing Rule).
- The performance rights to be issued to the Executives in respect of the financial year ended 30 June 2008 will be issued within one month from the date on which shareholder approval is received under resolutions 6 and 7. Performance rights to be issued to the Executives in respect of the financial years ended 30 June 2009 and 30 June 2010 will be issued not later than three years after 21 November 2007.

Recommendation

The Directors (other than Mr Tonkin and Mr Rule) recommend that Shareholders vote **IN FAVOUR** of resolutions 6 and 7. Mr Tonkin and Mr Rule (in his capacity as alternate director for Mr Tonkin) both have an interest in the outcome of resolutions 6 and 7 and therefore decline to make a recommendation.

RESOLUTION 8: Amendment to Constitution

ASX Listing Rule 8.14 currently provides that a listed entity must not charge a fee for registering paper based share transfers in registrable form and for effecting shunts between registers (ie. the removal of securities between the issuer sponsored and CHESS registers). This is reflected by rule 29.1 of the Company's Constitution which provides that "the Company must not charge any fee on transfer of a Share."

ASX has recently released an Exposure Draft which, if and when effective, will remove the above restrictions in ASX Listing Rule 8.14. The Company understands that amendments proposed in the Exposure Draft are likely to take effect in December 2007 and accordingly, is seeking shareholder approval to remove the restriction in rule 29.1 of its Constitution.

The Company has been advised by its share registry, Computershare Investor Services Pty Ltd ("Computershare") that the ability to charge a fee in relation to paper based share transfers and effecting shunts will improve their processing and ability to obtain fraud insurance. In order for Computershare to be able to charge such a fee, the charging of that fee must not be prohibited by the Company's Constitution. Accordingly, in anticipation that ASX Listing Rule 8.14 will be amended as outlined above, resolution 8 seeks to remove the words "the Company must not charge any fee on transfer of a share' from the Company's Constitution.

If shareholder approval is obtained, the Company will not charge a fee for registering paper based share transfers in registrable form and for effecting shunts between registers until such time as the amendments in the Exposure Draft take effect.

As required under section 136 of the Corporations Act, resolution 8 is a special resolution which must be passed by at least 75% of the votes cast by Shareholders entitled to vote on the resolution and present in person or by proxy at the annual general meeting.

The Directors recommend that Shareholders vote **IN FAVOUR** of resolution 8.