



## Mount Gibson Iron Limited

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# MOUNT GIBSON IRON AND SHOUGANG GROUP TO DEVELOP EXTENSIVE MAGNETITE RESOURCES

Mr Bill Willis, Chairman of Mount Gibson Iron Limited (ASX code: MGX) is pleased to announce the Company has signed a Participation Agreement with Shougang Holding (Hong Kong) Limited ("Shougang") to jointly develop MGX's extensive magnetite resources at Mt Gibson in the Mid West region of Western Australia.

Shougang is a wholly owned subsidiary of the Beijing based Shougang Group (also known as Capital Steel), which is China's fourth largest steelmaker.

MGX owns 63% (increasing to 80% by the end of 2005) of Asia Iron Holdings Limited ("AIHL").

*Principles of the Participation Agreement are as follows:*

- Extension Hill Pty Ltd ("EHPL"), a wholly owned subsidiary of AIHL, will fund and complete a Bankable Feasibility Study ("BFS") for the first stage development of a new magnetite mine and concentrator at the Extension Hill iron ore deposit at Mt Gibson to produce 5 Mtpa of magnetite concentrate for a minimum 20 year mine life.
- Shougang and Asia Iron (Nanjing) Co., Ltd ("AIN"), AIHL's wholly owned subsidiary in China, will each buy 2.5 Mtpa of magnetite concentrate from EHPL for the life of mine.
- The \$10 million BFS study of the mine development is scheduled for completion by 15 October 2005 and will include engineering and cost estimates for a 270km slurry pipeline from the minesite to the Port of Geraldton, and new port infrastructure to accommodate shipping of up to 10 Mtpa of magnetite concentrate.
- On successful completion of the BFS, AIHL will subscribe \$15 million into EHPL to progress the development at Extension Hill. Shougang will subscribe a further \$120 million in equity to earn a 50% interest in EHPL.

- As a result of the equity injections, EHPL will hold cash of approximately \$135 million that will form the equity component of the estimated \$293 million capital cost (including 10% contingency but excluding interest and working capital) of developing the Extension Hill mine and concentrator.
- Project finance for EHPL is likely to be in the order of \$196 million including estimated interest during construction of \$12 million and working capital of \$26 million.
- Shougang will purchase 50% of EHPL's concentrate production for 20 years at the cost of production plus a margin necessary to pay down project finance.
- Shougang is expected to use their allocation of concentrate for the production of blast furnace grade pellets at a major new steel mill being developed by its parent company on the central east coast of China.
- AIN will purchase 50% of EHPL's concentrate production on the same commercial terms as Shougang.
- AIN will construct a new 100% owned 2.5 Mtpa pellet plant at Longtan, China at a cost of approximately \$68 million (including 10% contingency). Longtan is a new port on the Yangtze River near Nanjing, at the centre of one of China's major steel making regions.
- The partners will jointly fund a second BFS over the next two years to investigate the viability of EHPL doubling concentrate production to 10 Mtpa by December 2009.
- MGX will separately procure funding for the development of the estimated \$250 million slurry pipeline and \$50 million port infrastructure. Discussions have commenced with a number of established infrastructure groups to partner MGX in these developments.
- The investment in EHPL and MGX by Shougang is conditional on the following:
  - (i) Shougang completing satisfactory due diligence by 15 September 2005.
  - (ii) Completion of all transaction documents by 15 September 2005.
  - (iii) The BFS being completed by 15 October 2005 and confirming:
    - (a) the capital costs for development of the mine and concentrator will not exceed \$293 million (including a 10% contingency), excluding mining equipment, power plant and mine site accommodation, which will all be leased;
    - (b) the unescalated average production cost of concentrate over the 20 year mine life will not exceed \$48 per tonne fob Geraldton;
    - (c) the target specification for magnetite concentrate being equal to or better than 68% Fe content;
    - (d) ship loading rates at the Port of Geraldton being not less than 3,000 wet metric tonnes per hour; and
    - (e) the Port of Geraldton accommodating 60,000 deadweight tonne panamax vessels.

- (iv) all necessary Australian Government and other approvals (including FIRB, environmental permits, shareholder and regulatory approvals) necessary for the Project to proceed being in place by no later than 31 March 2006.

### *Shougang Share Option*

In addition to becoming MGX's development partner in EHPL, Shougang has sought to become a strategic investor in MGX. The Company has granted Shougang an option to subscribe for 15% of MGX's issued capital at the date of completion of the BFS up to a maximum of 55,052,968 MGX shares (which may be adjusted for any issues of capital by MGX prior to the date of exercise of the option), on the following terms:

- The shares will be issued at 85% of the weighted average price for the 10 trading days after completion of the BFS, up to a maximum price of 75 cents per share.
- The shares will be issued within 7 trading days after the option has been exercised.
- Shougang may assign up to 30% of its option to subscribe for MGX shares to unrelated parties.
- The option will expire three weeks after completion of the BFS (15 October 2005).
- Shougang will be entitled to appoint one director to MGX's Board if they hold approximately 10% of the Company's shares.

The current estimated financing requirements for Extension Hill mine and concentrator (EHPL) and Longtan pellet plant (AIN) are summarised as follows:

	<b>EHPL</b> A\$ mill	<b>AIN</b> A\$ mill	<b>TOTAL</b> A\$ mill
<b>Capital requirements</b>			
BFS costs	10	2	<b>12</b>
Construction and development costs (including contingency of 10%)	293	68	<b>361</b>
Working capital and capital interest	38	11	<b>49</b>
	<b>341</b>	<b>81</b>	<b>422</b>
<b>Funding sources</b>			
Project financing	196	49	<b>245</b>
AIHL / MGX equity contribution	25	32	<b>57</b>
Shougang equity contribution	120	-	<b>120</b>
	<b>341</b>	<b>81</b>	<b>422</b>

Mount Gibson Iron Chairman, Mr Bill Willis, said, "We are confident the due diligence and commercial and technical requirements of the BFS will be met and we look forward to working with our development partner, Shougang, to advance the project."

“MGX will fund its \$57 million share of the mine development and pellet plant from existing cash and operating cash flow to the end of 2005,” he said.

Mr Willis said that “Although the Company had envisaged not issuing further shares to achieve its development of the Extension Hill mine and associated pellet plant in China the opportunity to secure such a substantial investor and development partner as the Shougang Group was too compelling. The proceeds of the Shougang share option will be used as part equity for the slurry pipeline and port facilities.”

A corporate structure is attached.

Yours sincerely,  
MOUNT GIBSON IRON LIMITED



**Angela Dent**  
**Company Secretary**

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*Note: All \$ are Australian dollars*

# MOUNT GIBSON IRON GROUP

SIMPLIFIED CORPORATE STRUCTURE AFTER COMPLETION OF SHOUGANG TRANSACTIONS

MT GIBSON MAGNETITE PROJECT



