



**Mount Gibson Iron Limited**  
ABN 87 008 670 817



First Floor, 7 Havelock Street  
West Perth 6005, Western Australia

PO Box 55, West Perth WA 6872

Telephone: 61-8-9426-7500  
Facsimile: 61-8-9485-2305  
E-mail: admin@mtgibsoniron.com.au

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The Manager  
Company Announcements  
ASX Limited  
Level 10, 20 Bond Street  
SYDNEY NSW 2000

### **Iron Ore Offtake and Equity Financing**

Mount Gibson Iron Limited (**Mount Gibson**) advised ASX on 9 October 2008 that it was in discussions with a number of its customers in relation to requested delays to iron ore shipments scheduled for the quarter commencing October 2008. Three of those customers have now defaulted on their binding offtake agreements. Acceptable accommodation has been reached with a further two customers and discussions will be ongoing with a further existing customer until 9 November 2008. In response to those events, Mount Gibson has carefully reviewed all of its available options and has taken steps which mitigate the risk of further defaults and deferrals while preserving its rights against its defaulting customers.

Mount Gibson is pleased to announce that it has signed a binding Heads of Agreement with its major shareholder, APAC Resources Limited (**APAC**), and a further binding Heads of Agreement with Shougang Concord International Enterprises Company Limited (**Shougang Concord**). As detailed in the attachments, these agreements provide for:

- APAC and Shougang Concord to purchase available production from Mount Gibson's operations:
  - During November and December, 2008 (**Short Term Offtake**);
  - Between January and June 2009 (**Medium Term Offtake**); and
  - From 1 July 2009 (**Long Term Offtake**).
- APAC and Shougang Concord to underwrite a 1 for 5 renounceable rights issue at A\$0.60 per share to raise gross proceeds of A\$96.5 million (**Rights Issue & Underwriting**); and
- Shougang Concord to subscribe for a placement of 110 million ordinary shares at A\$0.60 per share to raise an additional A\$66 million (**Placement**).

The offtake, subscription and underwriting agreements to effect the above transactions are expected to be executed by mid-November 2008.

The Placement and the Underwriting are conditional upon approval by the Foreign Investment Review Board. The Medium Term Offtake and Long Term Offtake, together with the Underwriting and the Placement, will be subject to Mount Gibson shareholder approval at an extraordinary general meeting planned for late December 2008. The Short Term Offtake does not require Mount Gibson shareholder

approval and is expected to commence immediately on completion of a definitive Short Term Offtake Agreement.

Key terms for the offtake agreements are summarised in the Attachments below. The Short and Medium Term Offtake Agreements serve to contribute to pro-rata production costs during the next eight months. The Long Term Offtake will provide Mount Gibson with Hamersley benchmark prices less a discount to reflect product specification and relative freight differential particularly from the Geraldton Port. Based on current discussions with customers, 100% of future production from existing operations will be sold under long term contract of which 55%, 58% and 70% will be covered by the Short Term, Medium Term and Long Term Offtake agreements respectively with APAC and Shougang Concord.

The impact of some of its customers defaulting on Mount Gibson's near term cash flows together with the desire of Mount Gibson to continue priority development at Koolan Island and Extension Hill requires the raising of additional equity finance. The Rights Issue and Placement will together raise gross proceeds of A\$162.5 million. Together with existing cash reserves, the additional funds raised will ensure that Mount Gibson is adequately funded to continue priority development activities and mitigate the impact on Mount Gibson of any near term volatility in the iron ore market and financial markets.

APAC and Shougang Concord are both Hong Kong Stock Exchange listed entities. One of APAC's substantial shareholders is Shougang Holding (Hong Kong) Limited (**SHHKL**) which own approximately 18.95% of the shares in APAC. SHHKL also owns approximately 41.14% of Shougang Concord. SHHKL is a wholly owned subsidiary of the state owned Shougang Corporation, based in the People's Republic of China. Should Mount Gibson shareholders approve the placement and offtake agreements, APAC and Shougang Concord will collectively own between 28.56% and 40.46% of Mount Gibson depending on the uptake of the Rights Issue.

Upon execution of the Short Term Offtake agreement with APAC, Mount Gibson will appoint an additional APAC nominee as a non-executive director. Following execution of all offtake agreements and completion of the Placement and Rights Issue, Mount Gibson will also appoint a Shougang Concord nominee as a non-executive director. Following these appointments, APAC will have two nominees on the Mount Gibson board and Shougang Concord will have one nominee, out of a total of seven directors.

Mount Gibson will be pursuing those customers who materially breached their offtake agreements to recover from them any losses arising from volume and price differences between the customers' existing offtake agreements and the new offtake agreements. Mount Gibson believes it will recover any such losses from those customers in due course.

Mount Gibson Chairman, Neil Hamilton, commented "We are very disappointed that a number of our customers have defaulted on their binding obligations given the substantial investment Mount Gibson has made in the business based on executed legally binding long term ore purchase contracts and further representations made by these customers. Having said that, we acknowledge the support of our major shareholder, APAC, and Shougang Concord during this difficult time which allows Mount Gibson the opportunity to present a viable solution to shareholders that provides long term security for their company during the current volatility in the iron ore and financial markets."

## Operations and Development Activities

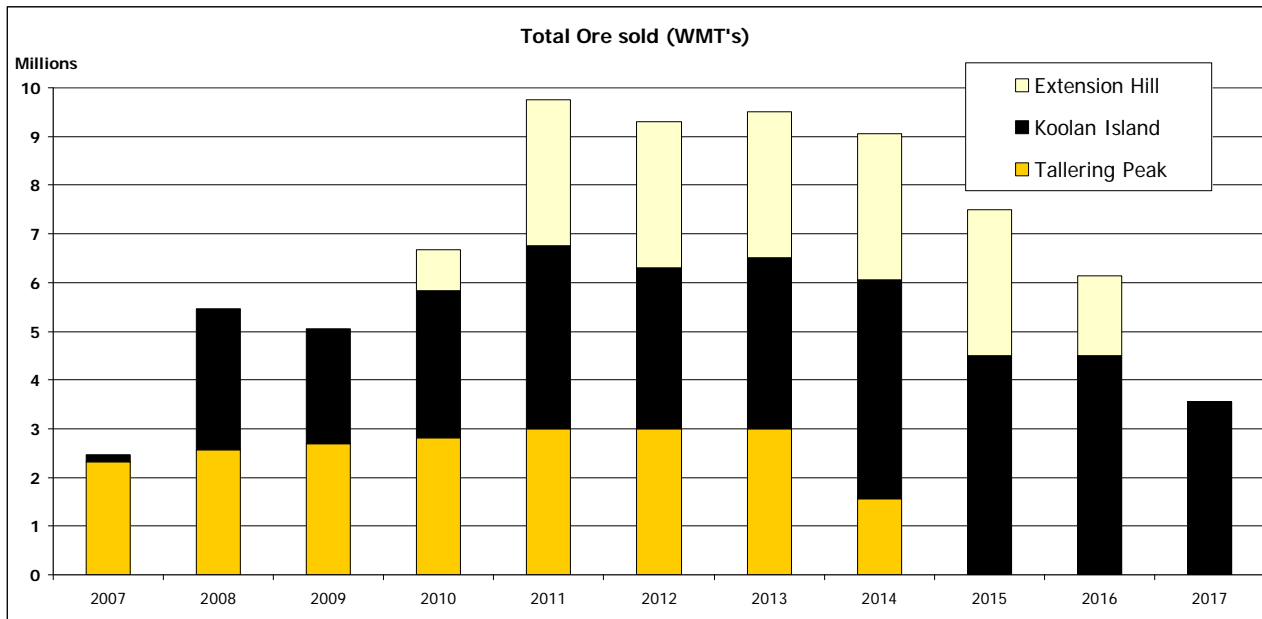
Mount Gibson is continuing to mine ore at Koolan Island and Talling Peak. At both sites, material operational changes have been made to optimise product specification in the near term and to appropriately manage cash expenditure. These changes also have the effect of reducing current production from those sites.

Mount Gibson has temporarily suspended development activities at the main pit of Koolan Island and expects to recommence these in July 2009. This will defer the commencement of ore mining from Main Pit for a minimum of 6 months. However, sufficient ore is available within Mount Gibson's satellite deposits at Koolan Island to continue producing saleable product during this delay. Mount Gibson has also deferred the T6B2 cut back at Talling Peak until July 2009.

Some construction activities at Extension Hill will be deferred, whilst commencement of ore production is rescheduled to the March quarter, 2010. All contracts with key suppliers have been retained and no material delay penalties will be incurred.

The Rights Issue and Placement, together with ongoing cash flows, will ensure that Mount Gibson is adequately funded to continue priority development activities at both Koolan Island and Extension Hill, which mitigates the impact of the current events on Mount Gibson's medium and longer term operational objectives.

As a result of shipping delays to date, the new offtake arrangements and the need to modify mine plans at both Koolan Island and Talling Peak, Mount Gibson has revised its iron ore shipment forecast for the 2008/2009 financial year to 5.0 million tonnes from the original 7.2 million tonnes. Mount Gibson advises that this, together with ore prices received for the remainder of the financial year at a discount to benchmark, will have a material impact on the company's profitability in the current financial year.



Estimated iron ore sales from existing ore sources

### **Mount Gibson Balance Sheet and Hedging Position**

Consistent with both company policies and minimum bank mandated hedging requirements, Mount Gibson has entered into foreign exchange forward contracts to cover approximately 60% of its budgeted US Dollar exposure for the 2008/2009 and 2009/2010 financial years.

As at 1 November 2008, Mount Gibson has outstanding forward contracts for:

- US\$375 million at a average rate of 0.8824 per US\$ due to expire in the 2008/2009 financial year; and
- US\$185 million at an average rate of 0.8109 per US\$ due to expire in the 2009/2010 financial year.

Mount Gibson's lenders have expressed a willingness to consider rolling forward excess foreign exchange forward contracts once new offtake arrangements are in place and the Rights Issue and Placement have been completed. This will prevent Mount Gibson from having to cash settle any forward contracts not needed for coverage of monthly operational US dollar income. Although Mount Gibson anticipates the ongoing support of its lenders there is no commitment at this stage from them to roll existing foreign exchange hedges forward, however the proceeds from the Rights Issue and Placement will adequately cover any cash required.

#### **Provisional Timetable**

<b>Event</b>	<b>Expected Date*</b>
Announce Heads of Agreement on ASX	Today (3 November 2008)
Announce Heads of Agreement on the Hong Kong Stock Exchange (HKSE)	As soon as practicable
Enter definitive agreements in respect of the Transactions	14 November 2008
APAC to despatch circular and notice of shareholders' meeting to its shareholders	As soon as practicable
Dispatch Notice of Meeting for Mount Gibson shareholder approval of the transactions	Late November
Rights Issue commences	Early December
APAC holds shareholders' meeting	Mid December
Mount Gibson holds shareholder meeting to approve the transactions	29 December 2008
Placement completed	As soon as practicable after the Mount Gibson shareholder meeting (if approval granted)
Rights Issue closes	Early 2009

\* All dates are an estimate of likely timing and Mount Gibson may alter these dates without advance warning

For further information:

Luke Tonkin or Alan Rule

Mount Gibson Iron Limited

+61-8-9426-7500

[www.mtgibsoniron.com.au](http://www.mtgibsoniron.com.au)

Media: David Griffiths

Gryphon Management Australia

+61-8-9382-8300

Or mobile +61-419-912-496

[www.gryphon.net.au](http://www.gryphon.net.au)

## ATTACHMENTS

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### A. Summary of Offtake Arrangements

Mount Gibson will enter into separate offtake agreements with APAC and with Shougang Concord. The key terms to be contained within these agreements have been agreed in the binding Heads of Agreements.

The offtake agreements are for the sale of "Available Production" which is defined as both lump and fines iron ore products that are produced from Koolan Island, Tallering Peak or Extension Hill, are available for shipping given shipping schedules, port capacity and transport logistics, and that are not the subject of any existing binding offtake agreements that are not in material default.

The key terms are summarised below:

#### APAC offtake agreements

- Short Term Offtake
  - Upon signing, APAC or a nominee guaranteed by APAC will purchase 50% of Available Production prior to 31 December 2008;
  - APAC will pay FOB US\$40 per wet metric tonne for both lump and fines ore; and
  - The quantity sold will be 50% of Mount Gibson's Available Production, subject to a maximum of 50% of Available Production that Mount Gibson is permitted to sell without shareholder approval (currently estimated to be less than 325,000 tonnes in total).
- Long Term Offtake
  - APAC or a nominee guaranteed by APAC will purchase 20% of Available Production from 1 July 2009 for the life of the respective mines;
  - Offtake will include production from Koolan Island, Tallering Peak and Extension Hill; and
  - APAC will pay a price based on the respective lump and fines Hamersley Benchmark Iron Ore Prices subject to industry standard specification penalties less either (a) a fixed 10% discount; or (b) a 5% discount plus a price adjustment to reflect actual market sea freight differential.
- Shareholder Approval
  - The APAC Short Term Offtake agreement is not subject to Mount Gibson shareholder approval; and
  - The APAC Long Term Offtake agreement is subject to Mount Gibson shareholder approval.

#### Shougang Concord offtake agreements

- Short Term Offtake
  - Upon signing, Shougang Concord or a nominee guaranteed by Shougang Concord will purchase 50% of Available Production prior to 31 December 2008; and
  - Shougang Concord will pay FOB US\$40 per wet metric tonne for both lump and fines ore
- The quantity sold will be 50% of Mount Gibson's Available Production, subject to a maximum of 50% of Available Production that Mount Gibson is permitted to sell to Shougang Concord without shareholder approval (currently estimated to be less than 325,000 tonnes in total).

- Medium Term Offtake
  - Shougang Concord or a nominee guaranteed by Shougang Concord will purchase 100% of Available Production from 1 January 2009 to 30 June 2009; and
  - Shougang Concord will pay a price calculated as Mount Gibson's cash production cost per wet metric tonne sold plus a 10% margin.
- Long Term Offtake
  - Shougang Concord or a nominee guaranteed by Shougang Concord will purchase 80% of Available Production from 1 July 2009 for the life of the respective mines;
  - Offtake will include production from Koolan Island, Talling Peak and Extension Hill; and
  - Shougang Concord will pay a price based on the respective lump and fines Hamersley Benchmark Iron Ore Prices subject to industry standard specification penalties less either (a) a fixed 10% discount; or (b) a 5% discount plus a price adjustment to reflect actual market sea freight differential.
- Shareholder Approval
  - The Short Term Offtake agreement is not subject to Mount Gibson shareholder approval; and
  - The Medium Term Offtake and the Long Term Offtake agreements are subject to Mount Gibson shareholder approval.

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## **B. Summary of Financing Arrangements**

Mount Gibson intends to launch a 1 for 5 fully underwritten and renounceable rights issue. The rights exercise price will be A\$0.60 per share and the issue will raise approximately A\$96.5 million prior to costs through the issue of 160,833,164 ordinary shares. The underwriting of this Rights Issue by APAC and Shougang Concord will be subject to approval by Mount Gibson shareholders not associated with APAC and Shougang Concord at an extraordinary general meeting scheduled to be held in late December 2008.

In addition, Mount Gibson proposes to issue 110,000,000 ordinary shares to Shougang Concord at A\$0.60 per share to raise an additional A\$66 million prior to costs. The Placement will also be subject to approval by Mount Gibson shareholders not associated with APAC and Shougang Concord at the shareholder meeting.

Mount Gibson will enter into separate underwriting agreements with APAC and Shougang Concord and will also enter into a subscription agreement with Shougang Concord in respect of the Placement. The key terms of these underwriting and subscription agreements have been agreed in the binding Heads of Agreements and are summarised below:

### APAC Underwriting Agreement

- APAC commitments with respect to the Rights Issue
  - APAC commits to taking up its full entitlement under the Rights Issue, which is 32,829,269 ordinary shares based upon its current holding of 164,148,144 ordinary shares;
  - APAC to subscribe for any shortfall in the Rights Issue, in priority to any other underwriters, up to a maximum of 82.9 million shares; and
  - To the extent that APAC is prevented from underwriting a portion of the Rights Issue that it has agreed to underwrite due to FIRB approval then it will use its best endeavours to arrange for a non-associated person to underwrite the relevant portion.

- The underwriting commitment is conditional upon:
  - Approval by Mount Gibson shareholders;
  - Approval by APAC shareholders; and
  - FIRB approval for the increase in combined holding for APAC and Shougang Concord. APAC currently has FIRB approval to acquire up to 29% of Mount Gibson but will need to increase and refresh this approval.
- Other key terms and effect on holding
  - APAC will be paid an underwriting fee of 3.5% of its underwriting commitment (this does not include a fee for APAC taking up its own 32.8 million rights); and
  - The effect on APAC's direct holding in Mount Gibson ranges from no increase from its existing 20.41% holding, to a maximum of 26.04% depending on what portion of the Rights Issue is taken up by Mount Gibson shareholders (allowing for the dilution effect of the Placement to Shougang Concord).

#### Shougang Concord Underwriting and Subscription Agreements

- Shougang Concord commitments with respect to the Rights Issue and the Placement
  - Shougang Concord, as underwriter, to subscribe for any shortfall in the rights issue not taken by APAC up to a maximum of 50,000,000 shares but expected to be for 45,103,535 shares; and
  - To subscribe for 110,000,000 shares in the Placement at A\$0.60 per share.
- Shougang Concord's underwriting of the Rights Issue and the Placement to Shougang ConCORDS are conditional upon:
  - Approval by Mount Gibson shareholders;
  - FIRB approval for the combined holding of Shougang Concord and APAC; and
  - There are no Shougang Concord shareholder approvals required or Hong Kong/Chinese regulatory approval requirements.
- Other key terms and effect on holding:
  - Shougang Concord will be paid an underwriting fee of 3.5% of its underwriting commitment;
  - Shougang Concord will end up with a direct holding in Mount Gibson ranging between 10.23% and 14.43% depending on what portion of the Rights Issue is taken up by Mount Gibson shareholders; and
  - Taken together, Shougang Concord and APAC will have a combined holding in Mount Gibson of between 28.56% and 40.46% depending on what portion of the Rights Issue is taken up by Mount Gibson shareholders.



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## C. Background Information APAC and Shougang Concord

### *Background Information on APAC*

APAC Resources Limited (**APAC**) (HKEx: 1104) is principally engaged in trading. It trades both metals and metal inputs as well as fabrics, fabric products and other related goods. It also has investments in a variety of assets in resources and related industries as well as listed securities.

APAC is listed on the Hong Kong Stock Exchange and has a market capitalisation as of 31 October 2008 of approximately HK\$1277m. It operates in Hong Kong, People's Republic of China, Australia and South East Asia.

Shougang Corporation owns 100% of Shougang Holding (Hong Kong) Limited (**SHHKL**) which in turn owns 18.95% of the shares in APAC.

### *Background Information on Shougang Concord*

Shougang Concord International Enterprises Company Limited (**Shougang Concord**) (HKEx: 0697) is principally engaged in the manufacture, sales and trading of steel products and through its subsidiaries provides iron ore and coal freight services.

Shougang Concord is part of the MSCI China/Hang Seng Composite Index. Shougang Concord is listed on the Hong Kong Stock Exchange and has a market capitalisation of approximately HK\$4.5bn. Shougang Corporation owns 100% of SHHKL which as of 5 September 2008 in turn owns approximately 41.14% of the shares in Shougang Concord.