



Mount Gibson Iron Limited

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The Manager
Company Announcements
Australian Stock Exchange Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

SUBJECT: DIRECTORS AND EMPLOYEES SHARE SCHEME

The Board of Mount Gibson Iron Limited has resolved to seek Shareholder's approval for the implementation of a Directors and Employees Share Scheme whereby a number of Options will periodically be offered to Directors, Senior Management and Employees, which in total will not exceed 5% of the number of shares then on issue.

It is proposed that the first offer of 13.5 million Options will be made to approximately 40 persons. Subject to the offeree's continuing employment on 31 December 2005 the Options will be issued on 1 January 2006, and will be exercisable at 25 cents per share on or before 31 December 2006.

The Board wishes to make the offer to existing personnel and to personnel recently recruited to its mining operations at Talling Peak to establish a sense of ownership in the Company, and to encourage its experienced workforce, most of whom have been recruited from the Mid West region of Western Australia, to remain with the Company on a long term basis.

Details of the scheme and proposed allocations to Directors will be put to Shareholders for their approval in the near future.

The Board has also resolved, subject to Shareholders' approval, to offer 12 million Options exercisable at 22 cents each on or before 15 October 2005 to 12 key personnel. It is proposed that 4.0 million of these Options will be issued to Managing Director, Brian Johnson, or his nominee.

The Board believes these personnel were instrumental in the successful development of the Talling Peak iron ore project and should be suitably rewarded, with the Option issue being at little cost to the Company.

Proposed allocations will be presented to Shareholders for their approval in the near future.

Yours sincerely
MOUNT GIBSON IRON LIMITED

Angela Dent
Company Secretary