



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: MT GIBSON MAGNETITE PROJECT SCOPE REVISED

Mr Bill Willis, Chairman of Mount Gibson Iron Limited ("MGI") announced today that the Company had decided to significantly increase the scope of the Mt Gibson Magnetite Project in the Midwest region of Western Australia.

In order to minimise costs and improve operating profit, a decision has been made to use a slurry pipeline for the transport of magnetite concentrate from the mine to be developed at Extension Hill, Mt Gibson, to the port at Geraldton rather than using rail services.

The estimated cost of the slurry pipeline, return water pipeline (270km) and a gas supply pipeline from the Dampier to Bunbury gas pipeline to the mine (210km) will be in the order of \$300 million including 10% contingency, based on estimates prepared by the Company's consultants.

The estimated savings in transport costs of \$13 per tonne of concentrate over the life of the project will be approximately \$1.3 billion (approximately \$65 million per year compared with railing - a five year pay back period). This decision will result in a number of additional benefits including reduced environmental impact and independence from third parties in the transport of product.

To further reduce operating costs, the Company has also made an offer to the Geraldton Port Authority to develop a dedicated berth, storage facilities, and shiploading facilities. These facilities will cost approximately \$40 million and will be financed by the MGI Group and its partner in the project.

The effect of these decisions is that total capital costs for the project will increase from previously advised \$410 million (excluding capitalised interest and working capital) for the Extension Hill mine and 5Mtpa Longtan pellet plant to \$750 million with the addition of \$340 million of infrastructure.

Resultant savings in transport and material handling costs are expected to reduce production costs for pellets delivered to stockpile in Nanjing to around US\$52 per tonne, compared with a budgeted selling price of US\$95 to US\$100 per tonne and current delivered price ex Brazil of over US\$120 per tonne.

As a consequence of these important decisions the Bankable Feasibility Study will not now be completed until October 2005.

To offset this delay and in view of the tight market for mining equipment, crushers and ball mills, the Company is preparing to order long lead critical items with negotiated cancellation fees in order to meet a revised commissioning date of March 2007.

As previously advised, the MGI Group expects to fund its equity in the mine and pellet plant development from existing cash reserves, the sale of a 50% interest in the Mt Gibson magnetite resources to the Chinese partner, option conversions and retained earnings from the Talling Peak hematite mine.

The Company must now fund around \$70 million of extra equity for the two infrastructure elements and expects to effect short term mezzanine financing which should be able to be repaid from earnings soon after commissioning of the project.

As the Nanjing Iron and Steel Group may not wish to increase its exposure to Australian mining and infrastructure assets the Company has commenced negotiations and made formal participation proposals to two major Chinese Groups.

Both of these Groups have significant investments in the mining industry outside China and are showing high levels of enthusiasm for joining the Company in the development of the Extension Hill mine, the Longtan pellet plants and the two infrastructure elements in Western Australia.

Yours sincerely,

MOUNT GIBSON IRON LIMITED



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Company Secretary

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