Fortescue Metals Group Ltd
A.C.N. 002 594 872

QUARTERLY REPORT

FOR THE PERIOD ENDING 31 DECEMBER 2004

The New Force in Iron Ore

HIGHLIGHTS TO ISSUE DATE

1. Design and Construct Agreements signed with the Government of China's largest harbour and metallurgical construction companies China Harbour Engineering Corporation and China Metallurgical Construction (Group) Corporation respectively. The transactions follow the agreement signed with China Railway Engineering Corporation in September 2004. These Government companies are now responsible for the design, construction and financing of the key project component parts.

2. Recent capital raisings total A$70 million inclusive of A$7 million from directors and management through the early exercise of options, A$40 million from the issuance of unsecured Convertible Notes at an exercise price of A$4.50 and the balance being an A$23million sales prepayment.

3. Enacting legislation passed by the Western Australian Parliament to bring The Port and Rail (The Pilbara Infrastructure Pty Ltd) State Agreement Act 2004 into law providing the requisite legislative platform of land access and operational tenure for the port and rail component parts of FMG's Pilbara Iron Ore and Infrastructure Project.

4. JORC compliant resource tonnage increased to 1.241 billion tonnes including an upgrade of the Christmas Creek Area tonnage to 850 million tonnes of which there are 198 million tonnes of higher grade (direct ship) material with an in ground average Fe grade of 60.2%. The exploration drilling program has been increased to 9 drill rigs focussed on the Christmas Creek Area as well as two new tenement sites Cloud Break and White Knight.

5. FMG's marketing team negotiated a fourth sales contract for 1.5 million tonnes of iron ore per annum over 20 years. FMG now has total per annum sales contracts for 9.5 million tonnes with the balance of its planned annual production of 45 million tonnes subject to supply arrangements under Memoranda of Intent with a range of international customers.

6. A total of A$97 million in capital contributions from international customers are now under contract or have been paid.

7. Mr Gordon Toll was appointed as a Director to FMG. He brings to the Company over 35 years of mining industry experience having worked with major resource companies including BHP, Rio Tinto and Texasgulf where he gained vast experience in the mining and processing of iron ore and specifically in regards to Marra Mamba ore which is FMG's main resource type.

8. The Australian Federal Minister for Industry, Tourism and Resources granted the project Major Project Facilitation ("MPF") status. This provides a strong indication of the nature and extent of Federal Government support for the project.

CORPORATE ACTIVITY

WA State Government provides requisite legislative platform for land and operational rights pursuant to the port & rail facilities

State Agreement

Fortescue Metals Group Ltd ("FMG") has, together with its wholly owned subsidiary The Pilbara Infrastructure Pty Ltd, entered into a State Agreement with the State of Western Australia for the Company's planned "open access" rail line from the Chichester Ranges through to its proposed port facility at Anderson Point at Port Hedland. The enacting of the Railway and Port (The Pilbara Infrastructure Pty Ltd) Agreement Act 2004 was passed by both houses of Western Australia's Parliament on Friday 26 November 2004. Accordingly the requisite legislative platform covering land access and operational tenure now exists for FMG to continue to progress its Pilbara Iron Ore and Infrastructure Project. The Agreement provides certainty to FMG for the construction and operation of its own rail line and port facility, under the jurisdiction of the Port Hedland Port Authority.

Along with security of tenure, a key feature of the State Agreement is the establishment of a community development plan involving local authorities and regional communities. This is consistent with FMG's inclusive approach to project development and will focus on the desire to bring benefits to the people of the Pilbara through employment, training and procurement.

Federal Government grants FMG Major Project Facilitation status to optimise approval process

Major Project Facilitation status

In a formal letter issued on Friday December 10 2004, the Federal Minister for Industry, Tourism and Resources, The Hon. Ian Macfarlane MP, announced that FMG's project has been granted this priority status. The practical effect is that an executive within the Federal body Invest Australia has been assigned to the project to provide a facilitation process covering all of the various Federal Government approvals and grants that a project of FMG's magnitude will require.

The MPF nomination provides a strong indication of the nature and extent of support that Australia's Federal Government is extending to expedite the development of its Pilbara Iron Ore and Infrastructure Project.

China support delivers design, construct and finance platform for the 3 critical component parts of the FMG Project

Design, Construct and Financing Agreements for Port, Rail and Processing Plant

Fortescue Metals executed agreements with China Harbour Engineering Corporation ("China Harbour") and Metallurgical Group of China ("China Metallurgical") pursuant to a design, build and finance arrangement for the respective project component parts of it's Port Hedland ship loading and stockyard facility and mine processing plant.

These contracts follow the agreement signed with China Railway Engineering Corporation ("China Rail") in August 2004 whereby the largest project component part being the rail line from Port Hedland to the proposed mine site in the Chichester Ranges, is to be delivered under a design, construct and finance structure substantially in the same form as those signed with China Harbours and China Metallurgical.

Fortescue Metals has now established a broad platform for the delivery of the three major component parts of it's A$1.85 billion Pilbara Iron Ore and Infrastructure Project on terms and conditions that take full advantage of the expertise and balance sheet strengths of the contracting parties. The estimated collective value of the rail, port and mine capital items included under these contracts is A$1.4 billion of which a payment structure has been agreed whereby 10% is payable on commencement of work and the balance is only paid after practical completion is declared. This has the effect of placing the majority project risk with the construction party. Further, the payment terms for the 90% balance are structured on a staged basis effectively providing a medium term finance facility.

The Chinese entities are highly experienced and resourced and favour involvement of local expertise

It should be noted that all three counterparties are enterprises of the Chinese Government with their respective core competencies being the areas of rail, port and mine plant construction. China Harbour has constructed the majority of China's large and medium–sized ports, as well as major dredging and reclamation projects and bulk cargo handling facilities. It has a fleet of more than 800 specialist harbour construction vessels and has developed a number of world-leading technologies associated with maritime infrastructure projects.

China Metallurgical has delivered strategic projects worldwide for the resources, transport, power generation, mining, aeronautics, chemical and mechanical industries. It has total assets of A$3.4 billion, specialists in steel mill development, and had revenues of around A$4 billion in the past financial year. China Metallurgical has more than 60 branches overseas.

All three enterprises have international experience and their preferred operating methodology is to involve local expertise particularly in regards to design and construction. Various international equipment suppliers and contractors including Barclay Mowlem, BGC and Thyssen Krupp have aligned themselves with these Chinese groups.

Sufficient funding in place until well beyond the DFS term

Capital Raising

The Company recently raised A$70 million of new funding through a convertible note issue, the exercise of options and an additional significant sales contract with prepayment. The A$70 million provides a substantial buffer to the Company's budgeted costs through to financial close, beyond the Definitive Feasibility Study. The funding has been raised in three transactions;

Exercise of Options - A$7 million

Fortescue Metals' Directors and senior management have injected A$7 million into the Company through the conversion of outstanding options well before the expiry of their term.

Sales Contract Prepayment - A$23 million

Fortescue Metals has signed a further sales contract with an international steel mill for the delivery of 1.5 million tonnes per annum of iron ore for 20 years. The contract includes a prepayment obligation of A$23 million to be made in instalments, with the final amount payable prior to financial close. The steel mill has requested its identity remain confidential for commercial reasons.

Convertible Notes @ A$4.50 Exercise Price - A$40 million

Convertible Note strike price at 67% premium to prevailing share price on day of issue

Investment funds advised by New York and Connecticut based DKR Saturn Management L.P. ("DKR"), being a U.S. investment management firm, have subscribed for unsecured Convertible Notes in Fortescue Metals for an amount of A$40 million. The Notes have a term of six years and an exercise price of A$4.50 which was significantly above the trading price of FMG at A$2.90 per share prior to the issue. During the term, DRK has the right to convert to FMG shares at the agreed A$4.50 exercise price. Fortescue Metals has the right to call for conversion of the Notes at the A$4.50 exercise price should FMG shares trade in excess of A$6.00 over the first three years. Notwithstanding, if the Notes have not already been converted and at the end of the 2005 calendar year FMG shares are trading below A$4.10, DKR may reduce their conversion price to 110% of the then market value.

If not converted during the six year term, the unsecured Convertible Notes will be redeemed by FMG. Further, the Notes are interest free over the first three years of the term following which time they attract a 5% interest rate for the final three years.

Change of Directors

New FMG director with extensive iron ore mining and processing expertise

FMG is very pleased to welcome Mr Gordon Toll as a new director on FMG's Board of Directors. Mr Toll brings an enormous amount of experience and expertise involved directly within the iron ore industry and more particularly in relation to projects involved with the mining and processing of Marra Mamba ore within the Pilbara Region of WA.

Mr Toll has previously worked with Rio Tinto and BHP and has developed an extensive international network within the iron ore industry. Mr Toll's most recent executive role was as Deputy Chairman of

Ivanhoe Mines which is a mining operation with a large scale copper and gold project being developed in Mongolia.

Mr Toll will replace Mr Chris Linegar who recently retired from FMG's Board. The Company would like to thank Mr Linegar for his involvement in taking FMG from its inception in July 2003 through to its current position.

MARKETING

Fourth sales contract signed with FMG's total p.a. contracted sales to date now being 9.5 Mt's

A fourth sales contract was signed in January 2005 for the supply of 1.5 million tonnes of iron ore per annum for 20 years including a prepayment of A$ 23 million. FMG now has a total of 9.5 million tonnes per annum or 21% of planned capacity covered under binding contracts.

In October 2004, FMG was one of three mining companies – and the only new iron ore company – participating at the *42nd Australia-Japan Joint Business Conference* in Melbourne. The conference, which included leaders from industry and government from Japan and Australia, provided the opportunity to discuss cooperation with the Japanese steel producers and trading companies.

FMG conducted multiple discussions with leaders of the global steel industry at the *4th China International Steel & Raw Materials Conference* in Shanghai. FMG's Chairman, Andrew Forrest, was invited to speak at the conference and attracted wide attention from the steel industry participants and the media.

Steel mills continue to face supply shortfalls with iron ore prices tipped to soar in 2005/06.

A series of visits and high level meetings with steel mills in Hebei, Shandong, Jiangsu, and Guangdong provinces in China has further progressed discussions in respect to iron ore offtake and potential investment in FMG. These steel mills are facing a shortage of iron ore supply at a time when they are implementing expansion plans. According to estimates from a government official, China's steel production could reach 500 Mt in 2007 if all projects under construction are completed.

Another technical marketing trip was completed during the first half of December 2004. This trip provided the opportunity to update the largest steel mills in Asia and regional potential investors on FMG's progress as well as the resources and product definition status. All discussions were positive with an increasing interest in technical information being provided by FMG.

FMG discusses Co-operation Agreement with CSU

FMG initiated discussions with China South University (CSU) to establish a Co-operative Agreement. In addition, a technical presentation for metallurgists in China's steel industry was organized with the assistance of CSU in Changsha, Hunan Province. The feedback from the seminar was positive.

	ENVIRONMENT & COMMUNITY RELATIONS
Stage A in last step of review process.	**Stage A Public Environmental Review ("PER"); covering the port and the north to south main line railway** • The Stage A Public Environmental Review process is in its final stages of review following the closing of the public comment period in November and the recent conclusion of the Stage A "Response to Public Submissions on Public Environmental Review" document which has been released to the Environmental Protection Agency for its consideration and subsequent recommendation to the Western Australian Minister for the Environment. • As part of FMG's inclusive approach to project development, The Environmental Protection Agency "EPA" Board conducted a site visit in November to review both the Stage A and Stage B areas. • A total of 17 public submissions on the Stage A PER were received by the EPA and passed onto FMG for response. **Stage B Public Environmental Review; covering the proposed mine and processing plant sites and the east to west rail spur line.**
Stage B PER released for public comment.	• Following extensive work with the EPA and various other governmental and community groups, the Stage B Public Environmental Review document was approved by the WA Minister for the Environment for lodgement for public scrutiny and comment. This happened on January 17 with the document open for public review for an 8 week period. • Part of the collaborative work under the PER was extensive consultation with CALM on water sheet flow and mulga woodlands. Field trials were undertaken on sheet flow redistribution methods. • There was also extensive investigation and evaluation of alternative rail alignments for the east to west spur line with a total of 7 different alignments being considered. **Community Relations** • As part of the PER process and as also required under the State Agreement, there was extensive work conducted on the Company's Community Development Plan and Community Support Program. These projects are now in final stages of development. • Discussions were held with Shire of East Pilbara, Shire of Ashburton and pastoralists regarding the content of State Agreement, the two PERs and general project issues. • Discussions continued with LandCorp regarding land for leasing in Port Hedland and Newman. • FMG supported the Port Hedland Enquiry by Design workshop held on 30th October 2004.

RESOURCE DEVELOPMENT & EXPLORATION

FMG increases its JORC compliant resource to 1.241 billion tonnes

FMG continues its aggressive exploration program and in November 2004 increased its JORC compliant resource to 1.241 billion tonnes. This included an upgrade to its Christmas Creek Area resource to 850 million tonnes ("Mt") which was determined to have an in ground average Fe grade of 56.74%. The Christmas Creek Area includes the main Christmas Creek tenement site together with satellite supply sites of The Hammer and Mt Lewin. The resource estimate was based on drilling data generated up to late October which represents some 50% of the targeted strike zone in these areas. Extensive drilling has occurred since this time but assay results are still being collated with delays being experienced due to the Christmas shut down period compounded by the sheer volume of samples being delivered to the laboratories by both FMG and other mining and exploration companies.

Importantly within the Christmas Creek Area upgrade the resource estimate included 198 Mt of geologically distinct higher grade zones containing microplaty hematite with an average in-ground grade of 60.2%.

FMG expands exploration team to one of the largest operations in Australia

FMG is now recognised as having one of Australia's most extensive mining exploration programs and has 9 drill teams actively mobilised across the Chichester Range area. The field teams include both reverse circulation and diamond drilling operations and are co-ordinated from FMG's head office in Perth utilising an exploration model that has been developed by the Company's experienced team of geologists with assistance from independent firms SRK Consulting and Snowden Consulting.

Christmas Creek Central (E46/566 and E46/610)

The tenement directly to the south of previously drilled Christmas Creek tenement, E46/566, was granted during October. The granting allowed FMG access to drill out extensions to the previously reported resource at Christmas Creek.

The initial 800 metre by 200 metre exploration drill grid reverse circulation drilling program was selectively infilled to a nominal 400 metre by 100 metre grid to for resource estimation. Further wide spaced drilling to the east of the previously reported resource confirmed the continuity of the mineralisation and was also incorporated in the November resource estimate. A total of 724 holes and 32,495 metres of reverse circulation drilling were completed on the project.

The diamond drilling program continued with a total of 1,123 metres and 46 holes drilled during the quarter. Diamond core was collected primarily for the metallurgical testing, bulk sample site selection and mining studies. Core was logged, sampled and dispatched for testing.

An estimate of the resource at Christmas Creek based on drilling to late October was calculated by Snowden Mining Consultants. The higher grade material contains significant volumes of microplaty hematite. A summary of the estimate follows:

Christmas Creek Resource Estimate September 2004				
Category	Tonnes Mt	Grade [2]		
		Fe%	P%	LOI%
Indicated	356.4	56.50	0.05	7.48
Inferred	296.4	57.22	0.05	7.50
Including				
Indicated	85.4	59.92	0.05	6.99
Inferred	64.1	60.31	0.04	6.86
Total				
Total Resource	652.8	56.82	0.05	7.49

The estimate is derived from the northern tenement at Christmas Creek (E46/566) and represents approximately one half of the prospective ground in the general Christmas Creek area. No results from the southern Christmas Creek tenement (E46/610) have been included in the above estimate.

Mt Lewin and The Hammer (E46/518)

A total of 39 reverse circulation holes and 1,504 metres were drilled during the quarter on the Mt Lewin project. The drilling was designed to better define the higher grade mineralisation at the Mt Lewin E project and test conceptual microplaty hematite targets.

A resource estimate at Mt Lewin tenement based on company interpretations was calculated by Snowden Mining Consultants. The higher grade material contains significant volumes of microplaty hematite. The following table summarises the results:

Mt Lewin and The Hammer Resource Estimate September 2004				
Category	Tonnes Mt	Grade [1]		
		Fe%	P%	LOI%
Total Inferred Resource	197.7	55.18	0.06	6.75
Including				
Inferred (Higher Grade)	48.8	60.46	0.06	5.55

Mt Nicholas (E46/467)

	No exploration field work or resource evaluation was conducted at Mt Nicholas during the quarter. The camp site and other facilities have been redeployed at other company exploration projects.
Initial assay results and logging at Cloud Break suggest similarities in mineralisation type to Christmas Creek	**Cloud Break (E46/690)** Drilling commenced during the quarter with a total of 115 holes and 5,876 metres of reverse circulation drilling completed. The drilling followed the east-west base line where four areas of significant mineralisation were identified. Initial assay results and logging suggests the targets are similar in mineralisation style to the previously reported Christmas Creek material. Further drilling and evaluation of these anomalies continues with two rigs currently on site. **White Knight** Drilling commenced during the quarter with a total of 66 holes and 3,450 metres of reverse circulation drilling completed. Initial logging and assays results have confirmed the presence of iron mineralisation **Bulk Sampling** A bulk sampling rig was mobilised across various Christmas Creek sites over November with the objective of generating bulk samples in a time and cost efficient manner. The performance of the rig proved to be better than anticipated as the application of this equipment for this purpose was an industry first and it proved to be well suited to FMG's ore type with its low stripping ratios and softer Marra Mamba ore type. After a three week period the rig had generated some 500 tonnes of mineralised material which was bagged and forwarded for metallurgical and physical property testing of the representative samples. **Aeromagnetic Survey** Interpretation continues of the 5,500 line kilometres flown across Christmas Creek, Mt Lewin, Cloud Break and White Knight. The data is used for targeting geological structures and anomalies located under alluvial cover in the Fortescue Valley. **Target Generation** FMG has enlisted the services of SRK Consulting on a campaign basis to augment its exploration team and identify new targets. The work has recognised both structurally controlled extensions to the mineralised material and new targets both outcropping and under cover in the valley. The new targets generated in the Mt Lewin and Christmas Creek areas are being tested during the next quarter. [1] **FMG chooses to publish only Iron, Phosphorous and Loss on Ignition for commercial reasons**

New mining methodology could produce very cost efficient extraction systems	**MINE METHODOLOGY EVALUATION:** The focus was on the planned mining operation at Christmas Creek being FMG's primary resource area to date. The generation of resource data over the last 6 months has enabled extensive "in-house" mine modelling studies to be conducted. Accordingly the mining team can now evaluate alternative points of entry (box cut) for the mining of the project area as well as identify various issues that will influence the efficiency of the mining process. Such issues include the thickness of the planar mineralized zone as well as its relatively shallow dip characteristics. In response it has been determined that a combination of bulk mining methodology combined with selective extraction is desirable to account for the particular conditions. Traditional bulk mining methods utilise large excavators in front shovel and back hoe configuration matched to haul trucks. With regard to more selective mining approaches FMG's team identified a particular piece of mobile mining equipment for its suitability for the extraction of the thin bands of comparatively soft Marra Mamba ore. The equipment has been used in other iron ore mining operations and investigations continue as to its suitability for the Christmas Creek Area. Initially it appears to have a number of benefits to offer in terms of extracting thin seams cleanly and cheaply. Notwithstanding, other thin seam mining methods are also being evaluated.
Extensive resource data being generated to provide input into mine process evaluation studies.	Continuing studies indicate that the Christmas Creek ore body would probably be best extracted from a series of contiguous open pits. The mining method envisaged has waste material being returned to a mined out area of a pit. In addition, the use of conveyors allows reject material from the plant to be conveyed back to the mining operation. Throughout the quarter, all diamond drill core being produced has been logged both geologically and geotechnically prior to chemical analysis. Consequently a very good data base now exists regarding rock quality and joint structures.
Hydraulic modelling successfully used to assist in water target drilling	The search for process water intensified during the latter part of the quarter with one drilling rig being utilised either for water exploration or environmental monitoring. During January some water bores were drilled on recently developed target areas. These were recognized as a result of a review of comparing aero magnetic surveys with geological structures. With increasing success the knowledge of the hydraulic model has improved and as a consequence, the siting of exploratory holes has been conducted with greater skill and the results continue to improve.

	PROCESS PLANT EVALUATION
Beneficiation and sintering characteristics under review	Over the quarter the mineral processing test work was focused on establishing the beneficiation traits and the lump quality and fine ore sintering properties of the resource material. To enable this, material from some 100 diamond drill core samples were used. The samples covered the key geographical, ore type and grade range known in the deposit. The diamond drill core was subjected to a simulated blasting, crushing and screening process at the AMMTEC laboratory to produce an at-mine lump and fine ore products. To enable a cross section of FMG's material to be tested there were four high grade lump samples (2x <7% LOI and 2x >7% LOI) and two fine ore samples (0.5 tonne each) that were composited from 30 intersections. The four lump samples were subjected to physical quality tests at SGS Lakefield Oretest whilst the two fine samples were subjected to pilot scale sintering tests at CSIRO Minerals in Brisbane. The lump quality tests produced performance results measured by way of industry standard measures of tumble index "TI", abrasion index "AI", degradation index "DI" and reducibility index "RDI". All these results were within the range expected of typical Marra Mamba ores. A further index known as the reducibility index "RI" was favourably higher than standard Marra Mamba product. Equally the fine ore sintering tests showed above average sinter productivity and reducibility whilst TI, RDI and fuel rate were within the acceptable range for typical Pilbara iron ores (Brockman, Pisolite and Marra Mamba). The sinter strength of the >7% LOI fine ore sample was low however, largely due to higher alumina and low ultrafines level. Approximately 60 resource average and low grade PQ core intersections were subjected to beneficiation tests on the simulated fine ore products, supervised by ProMet and with tests conducted at AMMTEC, SGS Lakefield Oretes and the CSIRO. The tests included gravity concentration via two types of jigs, tabling as well as Wet High Intensity Magnetic Separation. The fine ore jig tests have been sufficient to allow design of the front section of the process plant whilst light grinding test work showed promise in improving Fe grade and recovery from the -1mm fines by liberating loose silica and clays. Approximately 500 tonnes of bulk samples were obtained from across the Christmas Creek deposit for producing simulated lump and fines products, pilot scale beneficiation tests and production of simulated final product samples for internal and customer lump quality and sinter tests. Blasting, crushing and screening simulations were commenced on 1.2 tonne lot samples obtained from the bulk sampling program.

	DEFINITIVE FEASIBILITY STUDY The Definitive Feasibility Study ("DFS") continues under the supervision of the study manager the Worley Parsons Limited ("Worley Parsons"). The key achievements over the period under review were;
Whole of life rail optimisation commenced	• Data input for the rail alignment work being conducted by specialist group Quantm Ltd was significantly advanced. It is now at a stage whereby optimisation work for 'whole of life' considerations are under review inclusive of the interaction between track alignment and train performance which are modelled under specialist rail calculator software. Layout work for the port unloading loop, marshalling yards and rail workshops commenced and is due for completion next month. Specifications for above track components, rolling stock and track maintenance have all been compiled.
Marine geotechnical drilling completed	• Port studies and design at Anderson Point in Port Hedland have been substantially completed to allow documentation of major requests for quotation for the port i.e. dredging and marine structures to be compiled. The geotechnical field work was completed in December and its associated testwork is ongoing. • Ore handling design was substantially completed during the period and equipment selections to allow estimating is progressing. Also process plant and outside battery limits design work commenced late in the quarter.
Essential services of water supply and housing being addressed	• Commercial discussions continued with potential power suppliers for the supply of power to Christmas Creek and the Port. Discussions also continued with Watercorp for the supply of water to the port facilities including the commissioning of a study for the development of an alternative water supply source (eg a process water supply) as the major use at the port is dust suppression which sets a lower level water quality constraint. • Discussions are continuing with land developers including Government instrumentalities for the provision of housing in Port Hedland and Newman. • Negotiations are continuing with Australian ore wagon and locomotive suppliers with a view of forming an alliance for the design, supply and ongoing maintenance of the rolling stock. It is intended that any such arrangement would be as a sub contract agreement to the overarching China Rail contract.

ThyssenKrupp agreement signed for both preferred equipment supplier and possible equity position. ***China Rail executives at work with FMG and Worley personnel***	• FMG has successfully negotiated an agreement with ThyssenKrupp for preferred supplier status for materials handling and processing equipment. The agreement also involves equity participation. Similar discussions are also advanced with ABB. Both China Harbour and China Metallurgical have accepted ThyssenKrupp as preferred supplier for materials handling equipment. • Representatives from China Railway and partner group Barclay Mowlem undertook a series of technical sessions in Perth with FMG and Worley Parsons. They also did an abridged MARCSTA training course and made an extensive site visit during their three week visit. The aim of the visit was to build up China Railway's understanding of design status, design requirements, Australian safety practices and more specifically Pilbara work practices.
NCC rules to proceed with its review of FMG's Newman Rail Line Declaration application. ***The Declaration relates only to Mindy Mindy deposit and is not related to the Chichester Range deposits.***	**BHP DECLARATION PROCESS** During the period FMG received a favourable ruling in its declaration application pursuant to the BHPB rail line from Mount Newman to Port Hedland. In a decision by the National Competition Council "NCC" made public in December 2004 it was determined that the NCC was able to review FMG's declaration application notwithstanding BHPB's contention that the application should be terminated on the grounds that the rail line was part of a production process and therefore exempt from third party access provisions under the Trade Practices Act. Since this ruling by the NCC, and as anticipated by FMG, BHPB has taken legal action against the NCC and has joined FMG in these proceedings in an effort to terminate the application review on the grounds that the NCC was wrong in its rejection of the exemption defence. This court hearing will be held in March 2005 however FMG understands that the NCC will continue in its review of the declaration application regardless of the pending court hearing. As has been previously stated, the application relates only to FMG's joint venture deposit at Mindy Mindy which is quite separate to its wholly owned deposits along the Chichester Ranges. The ability or otherwise of FMG being able to access the BHPB Newman line is not critical to the main project involving mining in the Chichester Ranges and the development of rail and port infrastructure to export this production from Port Hedland. Regardless of the NCC outcome, FMG is still going to build its own railway line which in no way is contingent on the NCC declaration outcome.

	TENEMENT ACQUISITION
Tenement portfolio stands at 17,118 square kilometres	At the end of the December 2004 quarter FMG's Pilbara tenement portfolio stood at 17,118 square kilometres ("km^2"). This is relatively unchanged from the last quarterly report as the principal focus of the tenement team over the last period has been directed toward the obtaining of exploration and mining licenses over the various tenements. During the period 8 exploration licenses covering 1,400 km^2 were granted. These licenses are on ground that contains large down dip extensions of the Marra Mamba iron ore deposits within the Christmas Creek, Cloud Break, White Knight, Mt Lewin and Mt Nicholas project areas. There were 5 exploration license applications that entered the expedited Native Title process. The tenements cover 943 km^2 and contain potential Marra Mamba iron ore mineralisation in the Fortescue Valley to the south of FMG's main project area. During the period FMG also expanded its western tenement area with a new 190 km^2 exploration licence application applied for. The area subject to the application covers known channel iron deposits.
Mining licenses for main sites within the Chichesters	Finally FMG applied for 400 km^2 of mining leases which include sites that have been determined as containing substantial iron ore resources. These areas include; ▪ Christmas Creek – 192.7 km^2 ▪ Mt Lewin – 43.0 km^2 ▪ Cloud Break – 94.43 km^2 ▪ White Knight – 70.32 km^2

FORTESCUE METALS GROUP LTD

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Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

FORTESCUE METALS GROUP LIMITED

ABN	Quarter ended
57 002 594 872	**31 December 2004**

Consolidated statement of cash flows

Cash flows related to operating activities			Current quarter $A000	Year to date (6 months) $A000
1.1	Receipts from product sales and related debtors		398	837
1.2	Payments for	(a) exploration and evaluation	(8,113)	(15,402)
		(b) development		
		(c) production		
		(d) administration	(291)	(359)
		(e) Allied Medical payments to suppliers and employees	(520)	(920)
		(f) Other		
1.3	Dividends received			
1.4	Interest and other items of a similar nature received		98	158
1.5	Interest and other costs of finance paid			
1.6	Income taxes paid			
1.7	Other			
	Other Payments – Deposits Paid			
	Net Operating Cash Flows		**(8,428)**	**(15,686)**
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a) prospects		
		(b) equity investments		
		(c) other fixed assets	(168)	(256)
1.9	Proceeds from sale of:	(a) prospects		
		(b) equity investments		
		(c) other fixed assets		
1.10	Loans to other entities - (to associated JV company)		17	
1.11	Loan repaid by other entities			
1.12	Other			
	Net investing cash flows		**(151)**	**(256)**
1.13	Total operating and investing cash flows (carried forward)		**(8,579)**	**(15,942)**

1.13	Total operating and investing cash flows (brought forward)	**(8,579)**	**(15,942)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc	7,324	14,701
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows	**7,324**	**14,701**
	Net increase (decrease) in cash held	**(1,255)**	**(1,241)**
1.20	Cash at beginning of quarter/year to date	**5,344**	**5,330**
1.21	Exchange rate adjustments to item 1.20		
1.22	**Cash at end of quarter**	**4,089**	**4,089**

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter $A000
1.23	Aggregate amount of payments to the parties included in item 1.2	**134**
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A	Amount used $A
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		$A000
4.1	Exploration and evaluation	-
4.2	Development	20,000
	Total	**20,000**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A000	Previous quarter $A000
5.1	Cash on hand and at bank	**4,089**	**5,344**
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Bill	-	-
	Total: cash at end of quarter (item 1.22)	**4,089**	**5,344**

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Nil			
6.2	Interests in mining tenements acquired or increased	P46/1398	Granted	Nil	100%
		E45/2593	Granted	Nil	100%
		E46/590	Granted	Nil	100%
		E46/595	Granted	Nil	100%
		E46/600	Granted	Nil	100%
		E46/601	Granted	Nil	100%
		E46/610	Granted	Nil	100%
		E46/611	Granted	Nil	100%
		E46/612	Granted	Nil	100%

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*	N/A	N/A	N/A	N/A
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	149,492,928	149,492,928	N/A	N/A
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	7,000,000 1,000,000 250,000	7,000,000 1,000,000 250,000	100 cents 20 cents 50 cents	Fully paid Fully paid Fully paid
7.5	**+Convertible debt securities** *(description)*	N/A	N/A	N/A	N/A
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*			***Exercise price***	***Expiry date***
	FMGAM	4,970,000	Nil	8 cents	17 Apr 2008
	FMGAK	10,610,000	Nil	8 cents	29 Jul 2008
	FMGAO	15,000,000	Nil	8 cents	24 Oct 2008
	FMGAP	390,000	Nil	8 cents	21 May 2009
	FMGAQ	750,000	Nil	50 cents	28 Nov 2006
	FMGAS	20,000,000	Nil	8 cents	20 Jan 2009
	FMGAU	4,000,000	Nil	8 cents	1 Aug 2009
	FMGAV	1,000,000	Nil	75 cents	28 Nov 2006
	FMGAW	2,000,000	Nil	267 cents	31 Dec 2009
7.8	Issued during quarter				
	FMGAV	1,000,000	Nil	75 cents	28 Nov 2006
	FMGAW	2,000,000	Nil	267 cents	31 Dec 2009
7.9	Exercised during quarter				
	FMGAQ	250,000	Nil	50 cents	28 Nov 2006
	FMGAI	1,000,000	Nil	20 cents	30 Jun 2005
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*	N/A	N/A		
7.12	**Unsecured notes** *(totals only)*	N/A	N/A		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: .... Date: 25 January 2005
Print name: **CHRISTOPHER J CATLOW**
(Chief Financial Officer)

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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