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Mount Gibson Iron

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

PROPOSED RIGHTS ISSUE

Mr Bill Willis, Chairman of Mount Gibson Iron Limited, announced today that the Board had decided the Company should undertake a non-renounceable fully underwritten rights issue to Shareholders to raise $11.365 million, as a consequence of delays in completing a placement of 18.9 million shares at 25 cents each ($4.875 million) to the Granier Family Trust, which was to be the first of two tranches of investment, totalling $11.0 million.

Mr Willis said that the Company wished to strengthen its balance sheet in advance of awarding contracts for mine development and operations associated with its Tallering Peak iron ore mine, early next year.

Perth stockbrokers Paterson Ord Minnett Limited will act as Lead Manager and Underwriter to the offer to shareholders on a one for one basis at 9 cents per share, resulting in the issue of 126,281,008 shares. The Record Date for the rights issue is 2 January 2003. A Prospectus has been lodged with ASIC and ASX, and the offer to Shareholders should be dispatched on 7 January 2003.

Mr Willis said that Directors would accept the Granier Family Trust's subscription for 18.9 million shares if it were received prior to the Record Date, which would then require the issue of a Supplementary Prospectus.

In either event, the capital raising program would transform the Company's balance sheet allowing it to retire current loans, redeem Convertible Notes issued to Kingstream Steel Limited (Subject to Deed of Company Arrangement) for the acquisition of the Tallering Peak iron deposits, and provide the necessary working capital to complete the development of the Tallering Peak mine by mid 2003.

The Company also intends to negotiate with individual holders of Convertible Notes in an effort to repurchase the outstanding associated debt (total $2,875,000).

As previously reported, the Tallering Peak project economics supported by off-take agreements are such that the hematite mine should generate pre-tax operating profits of approximately $13.0 million per year at an annual production of 1.5 Mt. The Company's second mine at Mt Gibson is scheduled to come on stream one year later and should be able to be funded from cash flows and generate similar operating profits.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

Angela Dent
Company Secretary

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