



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: 61-8-9485 2355

Facsimile: 61-8-9485 2305

E-mail: admin@mtgibsoniron.com.au

VIA: WWW.ASX.ONLINE.COM

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**SUBJECT: MOUNT GIBSON IRON LIMITED PROPOSES TO DEVELOP ITS
SIGNIFICANT MAGNETITE RESOURCES IN THE MIDWEST REGION
OF WESTERN AUSTRALIA**

Mr Brian Johnson, Managing Director of Mount Gibson Iron Limited, announced today that the Company has entered into negotiations which are expected to lead to the development of its magnetite resources in the Midwest region of Western Australia.

While the hematite bearing iron ores found at Tallering Peak and Mt Gibson will be crushed and screened to produce direct shipping grade ore, magnetite bearing iron requires beneficiation by fine grinding and magnetic separation to produce an iron rich magnetite concentrate containing between 65% and 70% Fe. This magnetite concentrate is an ideal and desirable feed for the production of iron pellets and pig iron.

Mr Johnson said that he had recently visited China and would return again next week to advance negotiations to supply 2.5Mtpa of magnetite concentrate for a period of 15 years, to a group of new iron pellet producers.

Iron pellets are being used in increasing quantities by Chinese iron makers as a blended feed to their blast furnaces, in order to improve steel quality. Despite this growing demand, the Company does not believe production of pellets in Australia presents a business opportunity, with Chinese producers significantly advantaged by low construction and operating costs, particularly in regions with low cost coal as an energy source.

By establishing relations with new pellet producers in selected regions of China with restricted availability of locally produced magnetite concentrate or pellets, the Company expects to be able to achieve long term sales contracts with prices which will justify mine developments.

In addition to its magnetite resources at Tallering Peak, which were reported to be 47.7Mt by previous owners, Kingstream Steel Limited, and at Mt Gibson, which has reserves of 180Mt and probable total resources in excess of 500Mt, the Company has recently reached agreement in principle to explore and mine iron deposits at Koolanooka South, which are currently held by a private prospecting group. Details of the commercial arrangements will be released when finalised.

The 1000 ha of Exploration Licenses at Koolanooka South cover iron mineralisation adjacent to the old Koolanooka hematite mine, which was operated by Western Mining Corporation between 1966 and 1972. Magnetite bearing iron mineralisation occurs here over a 4km strike length, either outcropping or occurring at shallow depth.

The Company will commence exploration of Tallering Peak and Koolanooka South magnetite resources next month, with the ultimate aim of developing mines producing 1.0Mtpa and 1.5Mtpa of magnetite concentrate at the respective locations.

The Tallering Peak magnetite project will benefit from the infrastructure now in place for the Company's hematite mine at the same location, and the Koolanooka South project will benefit from an anticipated low stripping ratio, and its location 12km east of a 200km rail link to the port of Geraldton.

Mr Johnson said that the Tallering Peak and Koolanooka South magnetite resources will require further drilling and metallurgical test work before reserves can be delineated and a decision made on their development. Though it was too early to be certain these projects will be developed, all indications at this time are positive.

The Company is in the fortunate position of holding an option over the land-backed Berth 5 at the Port of Geraldton, where it can construct additional storage and ship loading facilities to accommodate its 1.6Mtpa hematite operation at Tallering Peak, the planned 1.5 Mtpa hematite operation at Mt Gibson, and the proposed export of 2.5 Mtpa of magnetite concentrate.

Mr Johnson said the Company has reasonable expectations of increasing exports of iron ore and concentrate to 5.5 Mtpa within the next three years.

Yours sincerely

MOUNT GIBSON IRON LIMITED



Angela Dent
Company Secretary

Enquiries: Mr Brian Johnson
Managing Director
Telephone: 08-9485-2355
E-mail: brianjohnson@mtgibsoniron.com.au