



Mount Gibson Iron Limited

ABN 87 008 670 817



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8 August 2005

No. Pages = 2

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

SUBJECT: MOUNT GIBSON IRON LIMITED APPOINTS NEW MANAGING DIRECTOR

Mount Gibson Iron Limited (ASX Code "MGX"), advises that Mr Brian Johnson will step down as Managing Director of the Company from mid October 2005. Mr Luke Tonkin will be appointed as the new Managing Director.

Mr Tonkin is a Senior Executive with extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin & lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. He has also held Executive Management roles within the world's largest Tantalum producer and third largest Australian listed gold producer. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia; assisting administrators restructure the Company. He has significant experience in establishing profitable operating businesses and establishing operational strategies consistent with the capability of the asset base whilst taking advantage of business development opportunities. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans.

Mr Johnson will continue with the Mount Gibson Group as Deputy Chairman of Mount Gibson Iron Limited Company, and as Chairman of subsidiary Asia Iron Holdings Limited, and be responsible for the development of a new 5Mtpa magnetite mine at Extension Hill, Mt Gibson, and a 2.5Mtpa pellet plant near Nanjing, China.

He will continue to be responsible for the construction of a 290km slurry pipeline between Mt Gibson and the Port of Geraldton and substantial infrastructure at the Port.

Mr Johnson considers it is an appropriate time for the Company to recruit a highly experienced mining engineer with an excellent technical and operating background to establish the management team to take the Company to its next level of production, which is expected to substantially increase over the next few years.

A copy of Mr Tonkin's executive employment agreement is attached.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

Enquiries: Mr Brian Johnson or Mr Alan Rule
Managing Director Finance Director
Telephone: 61 8 9426-7500
Email: admin@mtgibsoniron.com.au

Dated 5th August 2005

LUKE TONKIN

and

**MOUNT GIBSON IRON LIMITED
(ACN 008 670 817)**

EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT is made on the 5th day of August 2005.

BETWEEN

LUKE TONKIN of 188 Hawtin Road, Maida Vale WA, 6057 ("**Employee**").

AND

MOUNT GIBSON IRON LIMITED (ACN 008 670 817) of Level 1, 7 Havelock Street, West Perth, Western Australia, 6005 ("**Company**").

RECITAL

The Company has agreed to appoint the Employee as Managing Director to undertake the Duties.

OPERATIVE PART

1. DEFINITIONS AND INTERPRETATION

1.1. In this Agreement, unless the context otherwise requires:

"Associate" means from time to time:

- (a) the holding company of the relevant entity;
- (b) any subsidiary of the relevant entity;
- (c) any substantial shareholder of the relevant entity;
- (d) any company in which the relevant entity holds a substantial shareholding; and any joint venture in which the relevant entity is a participant.

"ASX" means Australian Stock Exchange Limited;

"Board of Directors" means the Board of Directors of the Company;

"Chairman" means the chairman from time to time of the Board of Directors;

"Commencement Date" means 25 October 2005, unless an earlier date is nominated by the Employee at his discretion;

"Dollars" or **"A\$"** means the currency of Australia;

"Duties" means the duties described in clause 2.1;

"Employee's Superannuation Fund" means a Complying Superannuation Fund nominated by the Employee;

"Information" means any information whatsoever in relation to the operations of the Company and the Mt Gibson Iron Group including information relating to feasibility studies, technology, clients or customers, contractual arrangements, finances and accounts, and including but not limited to, information and data contained in documents, books, records or stored on electronic equipment or by any other means, whether such information exists at the commencement of the Term or comes into existence during the Term;

"Managing Director" means the managing director of the Company;

"MGM" means Mount Gibson Mining Limited (ACN 074 575 885);

“Mt Gibson Iron Group” or “Group” means Mount Gibson Iron Limited (ACN 008 670 817), Mount Gibson Mining Limited (ACN 074 575 885), Westralian Iron Pty Ltd (ACN 104 984 545), Sheldon Hill Pty Ltd (ACN 112 863 368), Geraldton Bulk Handling Pty Ltd (ACN 100 105 388), GMG Pipelines Pty Ltd (ACN 112 872 349), Asia Iron Holdings Limited, , Austral Iron Pty Ltd (ACN 100 180 952), Jiangsu Investment Pty Ltd (ACN 111 143 223), Extension Hill Pty Ltd (ACN 067 128 938), Murchison Iron Pty Ltd (ACN 106 448 695), Asia Iron Limited, Asia Iron (Nanjing) Co., Ltd and any Associate from time to time of these companies;

“Official Office Hours” means from 8.00am to 5.00pm, from Monday to Friday with an hour lunch break, or such other official working hours as are approved from time to time by the Board of Directors;

“Position” means the position of Managing Director;

“Redundancy Event” means a situation where:

- a) the Employee’s Position becomes redundant; or
- b) there is a material diminution or change in the scope of duties, responsibilities, support services or powers assigned to the Employee; or
- c) there is a reduction in the Remuneration payable to the Employee; or
- d) the Employee is required to re-locate from Perth and does not wish to do so.

“Remuneration” means the total employment cost set out in Schedule 1;

“Salary” means the amount identified as “Salary” in Schedule 1; and

“Term” means a period of five years from the Commencement Date.

1.2. In this Agreement unless the context otherwise requires:

- (a) words importing the singular include the plural and vice versa;
- (b) words importing any gender include the other genders;
- (c) references to persons include corporations and bodies politic;
- (d) references to a person include the legal personal representatives, successors and assigns of that person;
- (e) a reference to a statute, ordinance, code or other law includes regulations and other statutory instruments under it and consolidations, amendments, re-enactments or replacements of any of them (whether of the same or any other legislative authority having jurisdiction);
- (f) references to this or any other document include this Agreement as varied or replaced, notwithstanding any change in the identity of the Parties;
- (g) references to writing include any mode of representing or reproducing words in tangible and permanently visible form, and includes facsimile transmission;
- (h) references to a person which has ceased to exist or has been reconstituted, amalgamated, reconstructed or merged, or the functions of which have become exercisable by any other person or body in its place, shall be taken to refer to the

person or body established or constituted in its place or by which its functions have become exercisable; and

- (i) reference to any thing (including, without limitation, any amount) is a reference to the whole or any part of it and a reference to a group of things or persons is a reference to any one or more of them.

2. ENGAGEMENT

2.1. The Company hereby engages the Employee as its Managing Director to perform the following duties for the Term:

- a) management of MGM's existing mining operations;
- b) liaising with major shareholders of the Company and assisting in capital raisings for the Company;
- c) management of public relations for the Company;
- d) evaluation, management, and control of all future mining prospects and operations for the Mt Gibson Iron Group;
- e) direction of the Group's Marketing Manager, and development of sales strategies for iron ore produced by the Mt Gibson Iron Group;
- f) development and implementation of investment strategies to promote growth in shareholders funds

and such related duties as the Chairman and Board of Directors shall from time to time direct.

2.2. The Employee will carry out the Duties under the supervision and control of the Chairman and Board of Directors.

2.3. The Employee will make himself available to perform the Duties on the following basis:

- (a) during Official Office Hours the Employee will work exclusively for the Company, will not undertake any additional work for himself or third parties; and
- (b) outside of Official Office Hours, the Employee will undertake such additional work as is reasonably required to carry out the Duties, and will not be entitled to additional remuneration for such work undertaken.

2.4. The Employee undertakes to perform the Duties in a professional and commercially reasonable manner.

2.5. The Employee will comply with any reasonable policies established by the Chairman and Board of Directors.

3. SALARY AND BENEFITS

3.1. Total Consideration

Subject to this Agreement, the Remuneration and benefits provided for in this Agreement shall constitute the entire consideration payable to the Employee and will be compensation for all time worked to fulfil the Employee's duties and functions regardless of the number, distribution and timing of the hours of work.

3.2. Remuneration

- (a) The Employer shall pay the Employee the Remuneration at the rate and in the manner prescribed in Schedule 1.
- (b) The Remuneration shall be reviewed in June of each year by the Board of Directors with the first such review to occur in June 2006 which such review will have regard to:
 - (i) the Employee's individual performance, as measured against any key performance indicators set for the Employee by the Board of Directors from time to time; and
 - (ii) the financial performance of the Group.
- (c) In any event, the Remuneration shall be increased as a minimum at each review by an amount equal to any increase in the Consumer Price Index (Perth all Groups) for the period of 12 months ending on 31 March which immediately precedes a review.
- (d) In no event may the Remuneration be reduced at any review without the prior approval of the Employee.
- (e) The Salary will be paid monthly by electronic bank transfer into an account nominated by the Employee, and the superannuation contributions will be paid monthly by electronic bank transfer to the trustees of the Employee's Superannuation Fund.

3.3. Bonus

In December of each year (commencing December 2006), the Company will consider the payment of a bonus to the Employee in an amount (of up to 20% of Salary) as determined by the Board of Directors.

3.4. Options

- (a) Subject to approval by the Company's shareholders, the Company will issue options over unissued shares in the Company to the Employee or a related entity containing the following terms:

- (i) Tranche 1

Number of options :	3,000,000
Exercise price :	\$0.90 per share
Vesting date :	After 3 years of continuous employment with the Company
Expiry date :	2 years after the vesting date

(ii) Tranche 2

Number of options :	2,000,000
Exercise price :	\$1.10 per share
Vesting date :	After 5 years of continuous employment with the Company
Expiry date :	2 years after the vesting date

- (b) These options will automatically be cancelled should the Employee terminate this Agreement prior to the vesting date.
- (c) These options will automatically vest if this Agreement is terminated pursuant to clauses 5.1(b), (c) or (d).

3.5. Leave

The Employee will be entitled to the following types of leave. For the purposes of calculating leave entitlements under this clause, the term "year" does not include any period of unpaid leave.

(a) Annual Leave

- (i) The Employee is entitled to twenty (20) days paid annual leave per year accruing pro rata on a weekly basis.
- (ii) Annual leave must be taken at such time that is mutually convenient to the Employee and the Group, taking into consideration the requirements of the Group.
- (iii) If the Employee lawfully leaves his employment, or the Employee's employment is terminated by the Company through no fault of the Employee, then the Employee will be entitled to payment for any accumulated unused annual leave.

(b) Sick Leave

- (i) The Employee is entitled to ten (10) days paid sick leave per year, accruing pro rata on a weekly basis.
- (ii) The Employee may be directed to provide the Company with a medical certificate from a registered medical practitioner in respect of any sick leave for a continuous period any longer than three working days or for absences the day before or the day after a public holiday.
- (iii) Upon termination of the Employee's employment the Employee will not be entitled to payment for any accumulated sick leave.

(c) Carer's Leave

The Employee will be entitled to Carer's Leave in accordance with Section 20A of the *Minimum Conditions of Employment Act 1993 (WA)*.

(d) Long Service Leave

- (i) The Employee will be entitled to 13 weeks long service leave on full pay after completing 10 years of continuous service with the Company or any company in the Mt Gibson Iron Group.
- (ii) After completion of the first 10 years of continuous service, the Employee will be entitled to a further 8 2/3 weeks for each additional 5 years of continuous employment completed within the Mt Gibson Iron Group.
- (iii) If the Employee has completed at least 7 years of continuous employment within the Mt Gibson Iron Group, and the employment is terminated:
 - A) due to the Employee's death, permanent incapacity to carry out the Duties or unsound mind; or
 - B) for any reason other than serious misconductthe amount of long service leave to be included in the Employee's termination pay shall be calculated as follows:
 - C) if the length of service is more than 7 but less than 10 years, pro-rata on the basis of 13 weeks for 10 years continuous employment; and
 - D) if the length of service is more than 10 years, 13 weeks long service leave for the first 10 years continuous employment (less any long service leave already taken), and 8 2/3 week long service leave for every 5 years of continuous service thereafter, pro-rata for parts thereof.

(e) Parental Leave

The Employee will be entitled to Parental Leave in accordance with the *Minimum Conditions of Employment Act 1993 (WA)*.

(f) Bereavement Leave

The Employee will be entitled to Bereavement Leave in accordance with Sections 27 and 28 of the *Minimum Conditions of Employment Act 1993 (WA)*.

(g) Public Holidays

The Employee will be entitled to be paid for public holidays in accordance with Section 30 of the *Minimum Conditions of Employment Act 1993 (WA)*.

3.6. Superannuation

- (a) The Company will make any contributions it is required to make under the *Superannuation Guarantee (Administration) Act 1992 (Cth)* on the Employee's behalf to the Employee's Superannuation Fund.
- (b) The Employee may from time to time direct the Employer in writing to deduct a percentage from each instalment of the Salary and remit it as the Employee's contributions to the trustees of the Employee's Superannuation Fund.
- (c) The Company will pay any bonus payable to the Employee into the Employee's Superannuation Fund unless requested otherwise by the Employee.

3.7. Other Employee Benefits

- (a) The Company will provide business class travel for any travel the Employee undertakes in the performance of the Duties.
- (b) Subject to prior approval of the Chairman, the Employee is entitled to attend training and professional development activities.
- (c) Subject to prior approval of the Chairman, the Employee will be entitled to attend industry conferences held both within Australia and overseas at the expense of the Company.
- (d) The Company shall forthwith enter into and pay on behalf of the Employee the following forms of insurance :
 - (i) death and disability cover, under which the Employee or his legal representative is entitled to receive a minimum of two years annual salary in the event of the Employee's death or total permanent incapacity to carry out the Duties; and
 - (ii) travel insurance for any domestic or journey incorporating emergency medical cover for overseas travel, for an amount and to a level which is consistent with current industry practice for a senior executive having the duties and responsibilities contemplated in this Agreement;
- (e) The insurance policies required to be effected by the Company under this clause shall be entered into with an APRA approved insurer. The Company will enter into a deed of Indemnity, Insurance and Access with the Employee. If requested and to the extent it is available, the Company will effect directors and officers insurance to cover the position of the Employee in his capacity as a director under which, to the maximum extent permitted by law, the Company indemnifies the Employee for all actions and claims against the Employee in relation to his employment and position as a director in an amount of not less than \$10 million with an APRA approved insurer.

3.8. Reimbursement of Expenses

- (a) In addition to payment of the Salary and other benefits described in this Agreement, the Company will reimburse the Employee for all expenses incurred by him in the proper performance of the Duties.

- (b) At or about the expiry of each month during the Term, the Employee will deliver to the Company an invoice for expenses incurred by him in that month in the performance of the Duties, together with relevant supporting data to verify payment of those expenses for approval by the Chairman. The Company will reimburse the Employee the amount of the approved expenses promptly and in any event within 10 days after approval.
- (c) All foreign currency expenses shall be converted to Dollars at the rate prevailing on the last working day of the month in which they are incurred.

3.9. Payments generally

All payments to be made to the Employee under this Agreement shall be made in Dollars.

4. TAX

The Company will deduct applicable income taxes payable in Australia on all amounts due to the Employee under clause 3.

5. TERMINATION

5.1. This Agreement will terminate on the happening of any of the following events:

- (a) if the Employee gives the Company 6 months notice in writing to terminate this Agreement, upon the expiry of that period of notice, or upon payment in lieu of the Salary and related benefits (including superannuation and bonus payments) payable to the Employee during that period of notice; or
- (b) if the Company gives the Employee notice in writing to terminate this Agreement, upon the expiry of 7 days following receipt of that notice; or
- (c) if a Redundancy Event occurs; or
- (d) if the Employee dies, becomes permanently incapacitated to carry out the Duties, or becomes of unsound mind then this Agreement will terminate immediately upon the Company serving the Employee's legal personal representative with written notice of termination; or
- (e) immediately upon the Company serving the Employee with written notice of termination, if the Employee is guilty of any grave misconduct, serious or persistent breach of the terms of this contract or wilful neglect in the discharge of the Duties.

5.2. Should this Agreement be terminated pursuant to clauses 5.1(b) or (c), then the Company shall immediately make the following payments to the Employee or his legal representative in the case of the payments described in clauses 5.2(a) and 5.2(c) and to Employee's nominated Superannuation Fund in the case of the payment described in clause 5.2(b) :

- (a) an amount equivalent to that payable during the remainder of the Term for all Salary, bonus and accrued annual leave and, if applicable long service leave, at the rates applicable at the time of the termination to the end of the Term, but limited to a maximum payment equivalent to 2 years salary, bonus and accrued annual leave;

- (b) superannuation payable during the period described in clause 5.2(a); and
- (c) unpaid expenses claimed under clause 3.8.

5.3. No later than thirty (30) days after the termination of this Agreement, the Employee (or if clause 5.1(d) applies, the Employee's legal personal representative) will hand over to the Company all Information the property of the Company and the Mt Gibson Iron Group held and maintained by the Employee pursuant to this Agreement, including where applicable functional versions of any contact list, contracts, computer models, work programs or budgets, or other software created for the Company by the Employee during the Term. In addition, the Employee will resign as a director of each applicable company in the Group.

5.4. The expiry or termination of this Agreement shall be without prejudice to any right that may have accrued to either party in respect of any antecedent breach of this Agreement by the other party prior to the date of expiry or termination.

6. CONFIDENTIALITY

6.1. The Employee covenants with the Company which, for the purposes of this clause, shall include all companies within the Group:

- (a) to keep the Information strictly confidential;
- (b) not to use it for any purpose other than the purposes of the Employee's employment with the Company; and
- (c) not to use the Information for his own personal benefit, or any business other than that of the Company, or for the benefit of any party other than the Company, or in any other manner.

6.2. Clause 6.1 will survive the termination or expiry of this Agreement for any reason whatsoever.

7. CONFLICT OF INTEREST

7.1. The Employee covenants with the Company, which for the purposes of this Clause, shall include all companies within the Group, that during the Term, other than holding directly or indirectly shares in ASX listed companies involved in the iron ore industry in an amount not exceeding 5% of the applicable market capitalisation:

- (a) he will not carry on business in the iron and steel industry, other than on behalf of the Company, whether during or outside of Official Office Hours;
- (b) he will refer any business opportunity which he becomes aware of in the iron and steel industry to the Company; and
- (c) he will not accept any financial or other benefit from any business, company or individual with which the Company is negotiating, or with which the Company has direct or indirect business dealings, other than small gifts.

7.2. A material breach of any of the Employee's covenants in clause 7.1 will constitute a grave misconduct for the purposes of clause 5.1(e).

8. NOTICES

8.1. Any notice, approval or consent given under this Agreement must be in writing and sent to:

- (a) in the case of the Company:

Level 1
7 Havelock Street
West Perth, Western Australia
Facsimile: +61-8-9485-2305
Attention: The Chairman

- (b) in the case of the Employee:

188 Hawtin Road
Maida Vale WA 6057
Facsimile: +61-8-9454-3631

A party may change its address and facsimile number for the service of notices by giving notice to the other party.

8.2. Notices will be deemed served:

- (a) if posted, on the second day after posting, unless the address for service of the recipient is in another country in which case, on the seventh day after posting by airmail;
- (b) if personally served, at the time actual service is made on an officer or representative of the party on which the notice is served; or
- (c) if transmitted by facsimile, on production of a transmission report from the machine sending the notice that indicates the notice has been received in legible form by the party to whom the notice is being sent.

9. DISPUTE PROCEDURE

Any dispute, grievance or claim ("**Issue**") that arises during this Agreement will be dealt with in the following manner:

- (a) the Employee and the Company, through the Chairman or another appointed person, shall attempt to resolve the Issue by agreement;
- (b) if the Issue is not resolved within thirty (30) days of first being raised and either party so requests in writing, the Issue will be referred to an agreed arbitrator;
- (c) if the Employee and the Company cannot agree on a person to be nominated as arbitrator, then the matter shall be referred by the Chairman for determination by a person appointed by the President of the Institute of Arbitrators Australia (Western Australian Chapter);
- (d) the decision of the arbitrator will, in the absence of manifest error, be final and binding on the parties; and
- (e) the costs and expenses of the arbitrator shall be borne, as between the parties, as determined by the arbitrator.

10. MISCELLANEOUS

- 10.1. This Agreement is governed by and interpreted in accordance with the laws of the state of Western Australia and the parties submit to the exclusive jurisdiction of the courts of Western Australia.
- 10.2. No waiver of any provision of this Agreement will be effective unless it is in writing and signed by the party providing the waiver. No waiver of any breach of a provision of this Agreement will be construed to be a waiver of any other or subsequent breach.
- 10.3. The legal costs of and incidental to the preparation, negotiation and execution of this Agreement and all documents ancillary thereto will be borne by the Company.
- 10.4. Each of the parties will at all times do and execute or cause to be made, done or executed all such acts, agreements, instruments and things whatsoever as may be necessary or desirable to give effect to the transactions contemplated by this Agreement.
- 10.5. The terms and conditions of this Agreement constitute the entire agreement between the parties relating to the subject matter hereof and will supersede all previous agreements and communications with respect thereto.
- 10.6. If any of the provisions of this Agreement are held to be invalid or unenforceable for any reason whatsoever, the other provisions of this Agreement will not be affected by such invalidity or unenforceability and will remain valid in all respects.
- 10.7. This Agreement may not be varied except by an instrument in writing signed by the parties thereto.

EXECUTED AS AN AGREEMENT



.....
Luke Tonkin

5th August 2005.

.....
Date



.....
Witness Signature

R. J. THIRD.

.....
Witness Name

EXECUTED by **MOUNT GIBSON**)
IRON LIMITED (ACN 008 670 817))
in accordance with Section 127 of)
the Corporations Act by authority of)
its Directors.)



.....
Signature of Director

BRIAN JOHNSON

.....
Name of Director (block letters)



.....
Signature of Director/Secretary*

AWAN RUCE

.....
Name of Director/Secretary* (block Letters)

* delete whichever is not applicable

SCHEDULE 1 – REMUNERATION

TOTAL EMPLOYMENT COST

\$500,000 per annum

Made up as:

Salary (excluding superannuation)	\$458,715 per annum
Superannuation – Employer's Contribution (9%)	\$41,285 per annum
Options	As described in clause 3.4