



## Mount Gibson Iron Limited

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Dear Aztec Shareholder,

By now you will have received a Bidder's Statement from Mount Gibson Iron Limited (**Mount Gibson**) in relation to Mount Gibson's Offer for Aztec Resources Limited (**Aztec**). You will also have received Aztec Target's Statement, which includes a recommendation to reject the Offer.

There is nothing in the Target's Statement that justifies Aztec shareholders giving up the opportunity to create one of Australia's leading independent iron ore producers of scale. You should be disappointed by your Board's failure to embrace the value-creating combination of Aztec and Mount Gibson and its inability to offer a credible alternative to our compelling Offer. **The Aztec directors are unnecessarily placing your money at risk** by not recommending that you accept Mount Gibson's attractive offer and by making certain statements that lack support and compelling evidence.

**Mount Gibson announced its Offer for Aztec shares over 7 weeks ago and is now due to close in less than three weeks on 6 October 2006 unless extended in accordance with the Corporations Act.** A formal notice extending the Offer period to 6 October 2006 will be provided to Aztec shareholders separately. Since the Offer was made, Aztec has actively tried and to date failed to find any alternative offers that would deliver better value than Mount Gibson's Offer.

**Mount Gibson is offering you a significant premium** reflecting a fair value for your Aztec shares.

Based on the extent to which the price of Aztec's shares has tracked the value of the Offer consideration since announcement, the market does not anticipate a competing bid to emerge. Since Mount Gibson announced its Offer, the Aztec share price has consistently traded at or below the effective value of the Offer.

**In the absence of Mount Gibson's Offer, the Aztec share price is likely to fall.**

Mount Gibson believes that there are a number of shortcomings in the Aztec Target's Statement. Accordingly, Mount Gibson believes that it is important to take this opportunity to identify a number of issues that the Target's Statement fails to recognise.

## **The Aztec Target's Statement fails to recognise:**

### **That the significant benefits of the Mount Gibson Offer are compelling and irrefutable**

In the Bidder's Statement, Mount Gibson outlined the following eight compelling reasons why Aztec shareholders should accept the Offer:

- You will become a shareholder in Australia's leading independent pure-play iron ore producer;
- Mount Gibson can deliver the growth strategy articulated by Aztec – this will provide you with real benefits sooner;
- You will gain instant access to peak cycle iron ore prices – Mount Gibson is producing iron ore now, in a record price environment;
- You will increase your exposure to higher value Lump Ore;
- You will own a more balanced and diversified portfolio of assets, mitigating key specific risks identified by Aztec itself;
- You will benefit from any financial and market re-rating of the Merged Group;
- The Offer has been strongly endorsed by the largest shareholders in both Aztec and Mount Gibson; and
- You will receive an attractive premium for your Aztec Shares and participate in the long term growth of the Merged Group.

The Target's Statement does not articulate any credible arguments to refute the strong strategic and financial rationale for the combination of Mount Gibson and Aztec.

### **The importance of providing Aztec shareholders with a clear and supportable assessment of value**

Notwithstanding established practice, the Board of Aztec has not provided you with an Independent Experts view on value, or even its own.

In every single non-recommended takeover since 2003,<sup>1</sup> the target Board has provided its shareholders with a valuation. In all but one share-based takeover since 2003<sup>2</sup>, the target Board provided its shareholders with an Independent Expert's Report the one exception being a recommended takeover.

Questions you should ask the Aztec Board are:

- Why they have not provided you with a quantitative assessment of value ?
- On what value-driven basis therefore do they claim that the Offer is not fair and is inadequate ?

***The Aztec Board's recommendation lacks credibility, substance, due consideration and basis, as it provides no guidance on valuation and no substantiation of the claim that the Mount Gibson Offer is inadequate.***

This is not only the view of Mount Gibson. Respected business correspondent Bryan Frith, writing in the Australian newspaper on 13 September 2006, commented that "Aztec's target's statement (is) potentially misleading – conspicuous by its absence is an independent expert's report on value".

<sup>1</sup> Includes all completed public takeovers (excluding Listed Property Trusts) above A\$200 million announced post 1 January 2003. Source: Thomson Financial SDC

<sup>2</sup> Includes all completed share based public takeovers (excluding Listed Property Trusts and part scrip part cash takeovers) above A\$200 million announced post 1 January 2003. Source: Thomson Financial SDC

## **The Aztec Target's Statement fails to recognise:**

### **That Aztec's major shareholder, Cambrian Mining Plc, has already committed to accepting the Mount Gibson Offer**

Mount Gibson already owns 15.24% of Aztec.

Aztec's major shareholder, Cambrian Mining Plc, has strongly endorsed the Offer and has committed to accept the Offer, in the absence of a higher offer, for its remaining 16.31% of Aztec which when combined with Mount Gibson's existing shareholding would give Mount Gibson a relevant interest in 31.55% of Aztec.

This significant stake can be used to block any other party from acquiring full control of Aztec and in so doing potentially dissuade third parties from making a competing offer.

### **That Mount Gibson's Offer is at a substantial premium**

The Offer represents a substantial 38.4% premium to Aztec's one month volume weighted average share price for the period to 19 July 2006 (being the last day prior to media and market speculation arose about a possible takeover for Aztec by Mount Gibson).

Your largest shareholder Cambrian, at the time of the Offer said:

***"We believe the Mount Gibson Offer represents good value for Aztec shareholders and provides a platform for substantial future growth. Bringing these two companies together is a further step towards achieving the vision for a major independent iron ore producer"***

### **That Mount Gibson offers more than just reserves and resources**

Aztec directors are well aware that the relative value of Mount Gibson and Aztec shares is influenced by many more factors than the selective use of reserves and resources to attribute relative value, for example:

- Mount Gibson is in production today generating substantial operating cash flows at a time of record iron ore prices;
- Mount Gibson produces a much higher percentage of lump iron ore compared to Aztec's estimated lump ratio. Lump iron ore is currently trading at 28 percent premium to fines iron ore;
- Until at least 2009, Aztec will be mining lower grade satellite deposits containing high silica levels resulting in significant selling price discounts. It will be 2 years before the Main deposit produces specification ore because Aztec has scheduled a substantial dewatering program and a major cut-back of the Main deposit. As a result, Aztec's contribution to revenue, earnings and cash flow will be lower than a comparison of Aztec's anticipated average production; and
- Mount Gibson will realise significant cash (\$52.5 million) on receipt of Environmental Approval from the sale of its Extension Hill magnetite deposit which Aztec has ignored in any comparison of the two companies.

## **The Aztec Target's Statement fails to recognise:**

### **That Aztec shareholders will carry greater risk than shareholders in the Merged Group**

A combination of Mount Gibson and Aztec would significantly reduce the risk of your investment. By accepting the Offer you will become a shareholder in a Merged Group offering financial strength, asset diversification, history of cash generating operations, and a strong management team with proven credentials for managing complex operations.

Aztec on a standalone basis is subject to significant risks:

- Subject to the expected successful negotiation with its banking syndicate and equipment financiers in relation to debt funding, it is anticipated that Aztec will have in excess of \$130 million in debt (including mobile mining fleet financing) that will be serviced by only one source of cash flow. The resultant debt to equity ratio will be approximately 1:1. This is a significant debt burden and risk for a single asset company;
- Koolan Island is still subject to significant construction and commissioning risks that may result in capital expenditure blowouts or time delays. Should this occur, there may be a requirement to raise further funding either in the form of more debt or equity – the Merged Group will have a stronger balance sheet and enhanced access to capital;
- The Koolan Island mine is not scheduled to reach full production until 2009 with the ore sold in 2007 and 2008 being of relatively low quality resulting in significant price discounts; and
- There are significant unproven operational risks with the Koolan Island project, e.g. sea wall failure, main pit water inflow, etc

***Aztec has failed to acknowledge the significant benefits of mitigating these risks by being part of a larger group with multiple operations and existing cash flow.***

### **That the current Mount Gibson management is delivering on its undertakings**

Aztec directors have provided you with misleading information in relation to Mount Gibson's current management by inaccurately suggesting that the current management team has failed to live up to previous undertakings or forecasts. Mount Gibson's current management team is highly credentialed, has kept the market fully informed on all aspects of its operations and is delivering on its undertakings.

In late 2005 and early 2006, the current management team critically reviewed Mount Gibson's existing operations and business strategy. This review culminated in a new operating plan which has seen record ore mined of in excess of 750,000 tonnes in the first two months of this financial year, and remains on track to mine 3Mt of ore for the year. Strategically, Mount Gibson elected to divest the Extension Hill magnetite project for \$52.5 million and through the combination of Aztec and Mount Gibson create one of Australia's leading independent iron ore producers of scale.

***I strongly encourage you to ACCEPT the Mount Gibson Offer, which is scheduled to close at 5pm (Perth, Western Australia time) on 6 October 2006 unless extended in accordance with the Corporations Act. By accepting our Offer you will become part of Australia's leading independent pure-play iron ore producer, and not be potentially misled by the unsubstantiated rhetoric from the Aztec Board. If you have any questions, please contact the Offer Information Line on 1300 307 543 (toll-free within Australia) or +61 3 9415 4335 (from outside Australia).***

Yours sincerely



**Luke Tonkin**  
**Managing Director**