



Mount Gibson Iron Limited

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Dear Aztec Shareholder

Since our last correspondence with you, a number of important developments have emerged at Aztec Resources Limited ("**Aztec**") which affect the 3 for 1 Share Offer by Mount Gibson Iron Limited ("**Mount Gibson**").

Share issue

Last week, in order to avoid the prospect of Aztec becoming insolvent, the Aztec Board was forced to issue approximately 78 million shares to Australian Royalties Corporation Pty Ltd ("**ARC**"), at 22.5 cents per share, diluting existing shareholders in the process.

This situation arose after ARC placed caveats on Aztec's Koolan Island project by virtue of an option ARC held to repurchase a 30% interest in the Koolan Island project for \$1 upon satisfaction of certain conditions ("**Repurchase Right**").

Your Aztec directors **misled you** by:

- failing to disclose to shareholders that this Repurchase Right could be exercised if Aztec failed to *"mine and ship at least 500,000 tonnes of iron ore by 15 June 2007"*.¹ We understand that Aztec was unlikely to have satisfied this condition and as such ARC could have potentially repurchased a 30% interest in the tenements comprising the Koolan Island project for just \$1;
- claiming that the crisis share issue of shares to ARC was an "excellent outcome" for Aztec. The issue was necessary to prevent Aztec becoming insolvent. The Aztec Board tried to present this as a saving by stating that the undiscounted value of the royalty was \$29 million and that they paid \$17.5 million to extinguish it. Aztec shareholders should place no weight on their Board's comparison of these figures. The \$29 million value assessment includes approximately 6 million tonnes of inferred resource at full value of \$1 per tonne and does not adjust for risk or for the time value of money, making the comparison misleading;
- failing to immediately inform Aztec shareholders of the caveats which gave rise to a new set of circumstances that was likely to have a material impact on Aztec's share price; and
- failing to keep Aztec shareholders fully informed regarding operational delays at Koolan Island which may have triggered ARC's Repurchase Right. It appears that the banking syndicate providing Aztec with finance (based on their detailed project due diligence) was not satisfied with the Aztec Board's assurances that they could meet the mining and shipping target.

In doing the above, your directors took your Company to the brink of insolvency and placed your money at risk.

¹ Despite numerous market announcements, a prospectus in December 2005 and a Target's Statement in response to Mount Gibson's bid, Aztec only disclosed these terms on 19 October 2006.

Aztec valuation

The crisis 22.5 cent share issue to ARC was conducted at a price considerably below the 26.3 cents per share value² that Mount Gibson is offering you.

This dilutive issue of shares has been conducted at the expense of all other shareholders.

This issue of new shares at 22.5 cents to ARC has also set a benchmark for the Aztec Directors' view of the value of your Company. This is the first benchmark set, as the Aztec Directors have ignored market best-practice and failed to include a valuation of any kind in Aztec's Target's Statement, whether independent or otherwise, in order to give shareholders reasonable guidance on value.

Mount Gibson is therefore disappointed and surprised that the Aztec Directors, having issued new shares at 22.5 cents, continue to claim that Mount Gibson's offer to all shareholders, which valued Aztec at 26.3 cents per share², does not represent fair value.

Without Mount Gibson's offer underpinning Aztec's share price, we believe it unlikely that Aztec could have issued new equity even at the discounted price of 22.5 cents. In this case, the Aztec Board would then have been confronted with the choice of either diluting shareholders further or pushing the company into insolvency (it now appears likely that Aztec would not have met its commitments in relation to the Koolan Island project without securing bank finance).

Offer status

Mount Gibson has declared its offer free of all conditions. We have also shortened our payment terms, for your benefit, to three days.

Mount Gibson is already the largest shareholder in Aztec, and you should be aware that the Aztec Directors have now said that no other offers from alternate parties are expected.

The offer is scheduled to close at 5pm (Perth, Western Australia time) on Friday 3 November 2006 (unless extended).

Summary

Mount Gibson offers all Aztec shareholders the shared vision of creating Australia's leading iron ore company. This is our strategy designed to create value and deliver it to you, as a prospective shareholder in the combined group.

We continue to believe that the combination of the Mount Gibson and Aztec businesses will create an emerging market leader, resulting in a significant market re-rating and share price appreciation to be enjoyed by all shareholders.

The Directors of Aztec have desperately sought to deny you this opportunity, and in doing so they have taken your Company to the brink of insolvency and were subsequently forced into a highly dilutive and costly issue of new shares without seeking your approval. Mount Gibson questions the commercial astuteness of an Aztec Board that commits the company to expenditure exceeding \$133 million dollars without debt and equity finance in place and which subsequently resulted in third parties gaining enormous leverage to negotiate very favourable terms at the expense of Aztec shareholders.

As an Aztec shareholder you have been misled and treated with contempt by a Board in which your trust was placed and we encourage you to no longer tolerate a management that slips from one crisis to another.

I commend Mount Gibson's offer to you, and hope to welcome you as a shareholder in our combined companies.

Yours sincerely



Luke Tonkin
Managing Director

² Based on the VWAP of Mount Gibson's shares on 21 July 2006 (the trading day prior to the announcement of Mount Gibson's offer).