

MALLESONS STEPHEN JAQUES

Confidential communication

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4 January 2007

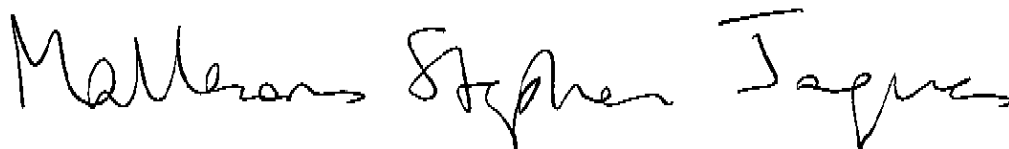
Dear Sir/Madam

Mount Gibson Iron Limited (ABN 87 008 670 817)

We act for Gallagher Holdings Limited ("Gallagher").

On behalf of Gallagher, we attach a notice of change in substantial holding in Mount Gibson Iron Limited.

Yours faithfully



Form 604Corporations Act 2001
Section 671B**Notice of change of interests of substantial holder**

To Company Name/Scheme Mount Gibson Iron Limited ("MGX")
 ACN/ARSN 008 670 817

1. Details of substantial holder(1)

Name Gallagher Holdings Limited
 ACN/ARSN (if applicable) Incorporated in Cyprus with company number HE 133001

There was a change in the interests of the substantial holder on 28 December 2006
23 December 2006
22 December 2006

The previous notice was given to the company on 18 December 2006
18 December 2006

The previous notice was dated 18 December 2006

2. Previous and present voting power

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in when last required, and when now required, to give a substantial holding notice to the company or scheme, are as follows:

Class of securities (4)	Previous notice		Present notice	
	Person's votes	Voting power (5)	Person's votes	Voting power (5)
Ordinary shares (ORD)	135,656,737	19.05%	135,656,737	18.09%

3. Changes in relevant interests

Particulars of each change in, or change in the nature of, a relevant interest of the substantial holder or an associate in voting securities of the company or scheme, since the substantial holder was last required to give a substantial holding notice to the company or scheme are as follows:

Date of change	Person whose relevant interest changed	Nature of change (6)	Consideration given in relation to change (7)	Class and number of securities affected	Person's votes affected
28 / 12 / 06 22 / 12 / 06	Gallagher Holdings limited	Reduction in relevant interest as a result of the dilutive impact of shares issued by MGX to shareholders in Aztec Resources Limited who have accepted MGX's takeover offer for all of the issued shares in Aztec Resources pursuant to a bidder's statement dated 11 August 2006 (as supplemented by later supplementary bidder's statements), as well as the dilutive effect of the issue of other shares as a result of the exercise of options)	NA	109,730,611 ordinary shares	109,730,611

23 / 12 / 06	Gallagher Holdings Limited	<p>On 23 / 12 / 06 Gallagher Holdings Limited ("Gallagher") and Australian Royalties Corporation Ltd ("ARC") entered into an option agreement (annexed as annexure A) ("Option Agreement") under which ARC granted Gallagher a conditional option to acquire 23,925,926 ordinary shares in MGX ("ARC's MGX Shares").</p> <p>This agreement replaces the conditional sale agreement between Gallagher and ARC in respect of ARC's MGX Shares, which was annexed to Gallagher's previous notice released to the ASX on 18 / 12 / 05 ("Previous Agreement").</p> <p>The replacement of the Previous Agreement with the Option Agreement does not change Gallagher's voting power in MGX. It changes the nature of its interest in ARC's MGX Shares, in which it has a relevant interest.</p>	<p>\$28,333,333 (on exercise of the option and completion of the sale)</p> <p>Plus \$150,000 Option Fee (see clause 11 of annexure A)</p> <p>Plus contingent Sunset Fee (see clause 12 of annexure A)</p>	25,925,926 ordinary shares	25,925,926

4. Present relevant interests

Particulars of each relevant interest of the substantial holder in voting securities after the change are as follows:

Holder of relevant interest	Registered holder of securities	Person entitled to be registered as holder (8)	Nature of relevant interest (9)	Class and number of securities	Person's votes
Gallagher Holdings Limited	Gallagher Holdings Limited	Gallagher Holdings Limited	Registered holder of shares	109,730,811 ordinary shares	109,730,811
Gallagher Holdings Limited	Australian Royalties Corporation Pty Ltd as trustee of the Australian Royalties Trust	Gallagher Holdings Limited (once option is exercised)	Option to acquire shares	25,925,926 ordinary shares	25,925,926

5. Changes in association

The persons who have become associates (2) of, ceased to be associates of, or have changed the nature of their association (9) with, the substantial holder in relation to voting interests in the company or scheme are as follows:

Name and ACN/ARSN (if applicable)	Nature of association
NA	


6. Addressee

The addresses of persons named in this form are as follows:

Name	Address
Gallagher Holdings Limited	Ledra House, 15 Ayiou Pavlou Street, Ayios Andreas, CY, 1105, Nicosia, Cyprus
Australian Royalties Corporation Pty Ltd as trustee of the Australian Royalties Trust	Level 8, 131 York Street, Sydney, NSW, 2000

Signature

print name Demetrios Serghides Capacity Director

sign here  date 03 January / 2007

DIRECTIONS

- (1) If there are a number of substantial holders with similar or related relevant interests (eg a corporation and its related corporations, or the manager and trustee of an equity trust), the names could be included in an annexure to the form. If the relevant interests of a group of persons are essentially similar, they may be referred to throughout the form as a specifically named group if the membership of each group, with the names and addresses of members is clearly set out in paragraph 6 of the form.
- (2) See the definition of "associate" in section 9 of the Corporations Act 2001.
- (3) See the definition of "relevant interest" in sections 608 and 671B(7) of the Corporations Act 2001.
- (4) The voting shares of a company constitute one class unless divided into separate classes.
- (5) The person's votes divided by the total votes in the body corporate or scheme multiplied by 100.
- (6) Include details of:
 - (a) any relevant agreement or other circumstances because of which the change in relevant interest occurred. If subsection 671B(4) applies, a copy of any document setting out the terms of any relevant agreement, and a statement by the person giving full and accurate details of any contract, scheme or arrangement, must accompany this form, together with a written statement certifying this contract, scheme or arrangement; and
 - (b) any qualification of the power of a person to exercise, control the exercise of, or influence the exercise of, the voting powers or disposal of the securities to which the relevant interest relates (indicating clearly the particular securities to which the qualification applies).

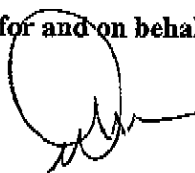
See the definition of "relevant agreement" in section 9 of the Corporations Act 2001.
- (7) Details of the consideration must include any and all benefits, money and other, that any person from whom a relevant interest was acquired has, or may, become entitled to receive in relation to that acquisition. Details must be included even if the benefit is conditional on the happening or not of a contingency. Details must be included of any benefit paid on behalf of the substantial holder or its associate in relation to the acquisitions, even if they are not paid directly to the person from whom the relevant interest was acquired.
- (8) If the substantial holder is unable to determine the identity of the person (eg if the relevant interest arises because of an option) write "unknown".
- (9) Give details, if appropriate, of the present association and any change in that association since the last substantial holding notice.

Gallagher Holdings Limited

Annexure A - Notice of change of interests of substantial holder

This is annexure A of 7 pages related to Form 604 (Notice of change of interests of substantial holder), attaching a copy of an agreement which is a true copy of the original.

Signed for and on behalf of Gallagher Holdings Limited



**Demetrios Serghidos
Director
Gallagher Holdings Limited**

22 December 2006

Australian Royalties Corporation Pty Limited
as trustee for the Australian Royalties Trust
Level 8
131 York Street
Sydney NSW 2000

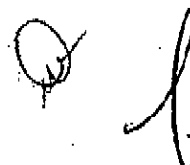
- A. Australian Royalties Corporation Pty Limited as trustee of the Australian Royalties Trust (ABN 48 048 343 567) (ARC) presently holds 25,925,926 fully paid ordinary shares in the capital of Mount Gibson Iron Limited (MGX Shares).
- B. The MGX Shares were issued to ARC on acceptance of the Mt Gibson Iron Limited (MGX) takeover offer for Aztec Resources Limited dated 11 August 2006 (Offer) in respect of the 77,777,778 shares in Aztec Resources Limited held by ARC prior to its acceptance of the Offer (Aztec Shares).
- C. Prior to ARC accepting the takeover offer, ARC agreed to sell the Aztec Shares to Gallagher Holdings Limited (Gallagher), subject to satisfaction of certain conditions, by an agreement between ARC and Gallagher dated 20 November 2006 (First Prior Agreement). These conditions were not satisfied.
- C. By an agreement between ARC and Gallagher dated 8 December 2006 (Second Prior Agreement), ARC and Gallagher terminated the First Prior Agreement and ARC agreed to sell the MGX Shares to be issued to Gallagher, subject to satisfaction of certain conditions by 22 December 2006. These conditions were not satisfied.
- D. The parties have agreed to terminate the Second Prior Agreement (with the exception of Clause 1 of the Second Prior Agreement pursuant to which the parties agreed to terminate the First Prior Agreement) on the basis that ARC will grant Gallagher an option to acquire the MGX Shares on the terms and conditions set out below.

The parties have agreed as follows:

1. The Second Prior Agreement, with the exception of Clause 1 of the Second Prior Agreement, is terminated and each party is released from all obligations under the Second Prior Agreement. For avoidance of doubt, the First Prior Agreement is terminated with effect from the date of the Second Prior Agreement and remains terminated.
2. In consideration of the option fee described in Clause 11 (Option Fee) and the Sunset Fee described in Clause 12 (Sunset Fee), ARC hereby grants Gallagher an option to acquire the MGX Shares for a purchase price of A\$23,333,333 (Purchase Price) (representing a purchase price of A\$0.90 per Share) (Option) on the terms and conditions set out in this letter agreement. Upon exercise of the Option by Gallagher in accordance with Clause 3, the MGX Shares must be transferred free from any Encumbrance and with all rights, including dividend rights, attached or accruing to them on the date of this letter agreement.



3. Subject to Clause 6, Gallagher may exercise the Option by giving ARC a written notice stating that Gallagher requires Completion to occur in accordance with Clauses 4 and 5 of this letter agreement (Notice of Exercise of Option).
4. Subject to Clause 6, the transfer of the MGX Shares (Completion) will take place at 4:00pm (Sydney time) 2 business days after the Notice of Exercise of Option is sent by Gallagher to ARC. Completion will take place at the offices of Watson Mangioni at Level 13, 50 Carrington Street, Sydney.
5. At Completion:
 - (a) Gallagher must pay the Purchase Price in immediately available funds to ARC or as it may direct less the Option Fee; and
 - (b) ARC must transfer the MGX Shares to Gallagher (or its nominee) and execute and deliver:
 - (i) a share transfer form in respect of the MGX Shares in a form reasonably acceptable to Gallagher; and
 - (ii) any other necessary documents as reasonably required by Gallagher to give effect to the transfer.
6. Exercise of the Option and Completion (by way of a transfer of the MGX Shares to Gallagher or its nominee) is conditional on the Treasurer (or his delegate) providing written advice, either unconditionally or on conditions which are reasonably acceptable to Gallagher, that there are no objections under Australia's foreign investment policy to the proposed acquisition by Gallagher (or its nominee) of the MGX Shares or, following notice of the proposed acquisition of the MGX Shares having been given by Gallagher (or its nominee) to the Treasurer under the Foreign Acquisitions and Takeovers Act 1975 (Cwlth), the Treasurer ceases to be empowered to make any order under Part II of that Act because of lapse of time.
7. Gallagher must use its reasonable commercial endeavours to satisfy the Condition set out in Clause 6 as soon as possible. The Condition may be effectively waived only by agreement between the parties.
8. ARC agrees not dispose of or grant any Encumbrance or rights in respect of the MGX Shares between the date of this letter agreement and the earlier of:
 - (a) Completion;
 - (b) termination of this letter agreement; and
 - (c) the date the Option lapses in accordance with Clause 9.
9. If:
 - (a) an Order or Claim is made and not withdrawn; and/or
 - (b) the condition in Clause 6 is not met; and/or
 - (c) Gallagher has not issued a Notice of Exercise of Option,



by the Sunset Date, then the Option automatically lapses and, except for the obligations of Gallagher set out in Clause 12, both parties' obligations under this letter agreement will cease with effect on and from the Sunset Date.

10. For the purposes of this letter agreement, the Sunset Date means 4pm (Sydney time) on Wednesday 31 January 2007 or such later date as may be determined by ARC.
11. Gallagher must pay to ARC an Option Fee of A\$150,000 before 4pm (Sydney time) on Friday 29 December 2006. If Gallagher does not pay the Option Fee before that time, ARC may terminate this letter agreement by notice in writing to Gallagher, in which case both parties' obligations under this letter agreement will cease with effect on and from the time of issue of that notice. If Completion occurs, the Option Fee is to be deducted from the Purchase Price payable by Gallagher to ARC on Completion in accordance with Clause 5. If Completion does not occur for any reason whatsoever, the Option Fee is non-refundable and may be retained by ARC, provided that ARC has complied with its obligations under this letter agreement.
12. If and only if:
 - (a) Completion does not occur under this letter agreement before the date 2 business days after Sunset Date; and
 - (b) ARC has complied with its obligations under the terms of this letter agreement,

Gallagher must pay to ARC, within 3 business days of the Sunset Date, a Sunset Fee to be calculated as follows:

$$SF = (A\$0.86 - SVWAP) \times 25,925,926$$

where:

SF is the greater of 0 and the amount of the Sunset Fee.

SVWAP is Sunset Volume Weighted Average Price, being the 5 day volume weighted average of the MGX share price for the 5 trading days up to and including 31 January 2007.

For the avoidance of doubt, if SVWAP exceeds A\$0.86, no Sunset Fee shall be payable by Gallagher.

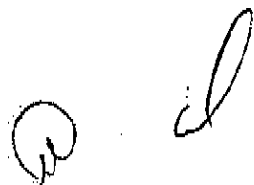
13. Gallagher may assign its rights under this letter agreement by prior notice in writing to ARC provided that the assignee agrees in writing to be bound by the terms of this letter agreement. Gallagher may not assign the duties and obligations of Gallagher set out in this letter agreement and if Gallagher assigns its rights in accordance with this Clause, Gallagher remains liable to ARC for the performance of those duties and obligations to the extent that they are not satisfied by the assignee, including, without limitation, those set out in Clauses 11 and 12. Following any assignment in accordance with this Clause, exercise of the Option and Completion remain conditional on the assignee satisfying the Condition set out in Clause 6 in respect of the assignee.
14. By executing this letter agreement, each party represents and warrants to the other as follows:



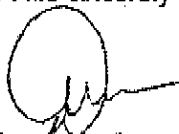
- (a) it has full power and authority to enter into and perform its obligations under this letter agreement;
 - (b) it has taken all necessary action to authorise its execution, delivery and performance of this letter agreement in accordance with its terms;
 - (c) its obligations under this letter agreement are legal, valid and binding, subject to any necessary stamping and registration, and are enforceable against it in accordance with its terms subject to applicable bankruptcy laws and equitable principles;
 - (d) the execution, delivery and performance of its obligations under this letter agreement complies with:
 - (i) each law, regulation, authorisation, ruling, judgment, order or decree of any governmental agency;
 - (ii) its constitution or other constituent documents; and
 - (iii) any Encumbrance or document which is binding upon it or any asset of it and does not and will not result in:
 - (A) the creation or imposition of any Encumbrance or restriction of any nature on any asset of it under the provisions; or
 - (B) accelerate the payment of any obligation existing under any Encumbrance or document which is binding upon it or any asset of it; and
 - (e) it has taken all necessary action to authorise the execution, delivery and performance of this letter agreement in accordance with its terms.
15. ARC acknowledges that it enters into this agreement in its capacity as trustee of the Australian Royalties Trust (Trust) and in no other capacity.
16. ARC represents and warrants to Gallagher that:
- (a) it is the only trustee of the Trust and no action has been taken or is proposed to remove it as trustee of the Trust;
 - (b) it has the power under the terms of the Trust to enter into and comply with its obligations under this letter agreement including the power to sell the MGX Shares;
 - (c) it has a right to be fully indemnified out of the Trust assets in respect of obligations incurred by it under this letter agreement and the assets of the Trust are sufficient to satisfy that right of indemnity and all other obligations in respect of which the trustee has a right to be indemnified out of the Trust assets;
 - (d) there are no Encumbrances over or affecting the MGX Shares;
 - (e) the MGX Shares are fully paid; and
 - (f) on Completion, the Buyer will receive valid and marketable title to the MGX Shares.

17. It is the intention of the parties that this letter agreement is legally binding.
18. This letter agreement is subject to the laws of the State of New South Wales and each party submits to the non-exclusive jurisdiction of the courts of the State of New South Wales.
19. This letter agreement may be executed in any number of counterparts each of which, when executed, is deemed to be an original and the counterparts will constitute one and the same instrument.
20. Each party must do all things necessary to give full effect to this letter agreement and the transactions contemplated by this letter agreement.
21. This letter agreement supersedes all previous agreements and other documents in respect of its subject matter and embodies the entire agreement between the parties.
22. Subject to Clause 23; if GST is imposed on any supply made under this letter agreement by one party (the **Supplying Party**) to another party (the **Receiving Party**) and GST has not been taken into account when determining the consideration payable or to be provided for the supply, the Receiving Party must pay, in addition to and at the same time as that consideration is payable or to be provided for the supply, an additional amount in cash calculated by multiplying that consideration (without deduction or set-off) by the prevailing GST rate.
23. The Receiving Party is required to pay any amount of GST to the Supplying Party on the date the Supplying Party has made demand for payment by means of a Tax Invoice in immediately available funds.
24. For the purposes of this letter agreement:
 - (a) capitalised terms have the meanings given to them in this letter agreement;
 - (b) **business day** means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney; and
 - (c) **Encumbrance** means any:
 - (i) security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention;
 - (ii) right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors; including any right of set-off; and
 - (iii) third party right or interest or any right arising as a consequence of the enforcement of a judgment,
 - (iv) or any agreement to create any of them or allow them to exist.

Please confirm your agreement to the above by signing and returning the enclosed copy of this letter.

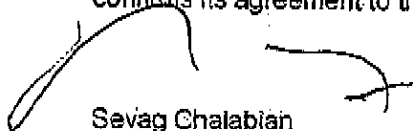


Yours sincerely



Demetris Serghides
Director
Gallagher Holdings Limited

Australian Royalties Corporation Pty Limited as trustee for Australian Royalties Trust
confirms its agreement to the above.



(Vice J-Fayed as Power of Attorney)

Sevag Chalabian
Director
Australian Royalties Corporation Pty Limited as trustee for Australian Royalties Trust