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1 November 2006

Dear Aztec Shareholder

Your Directors have written this letter in order to correct the scaremongering and spread of misinformation by Mount Gibson Iron Limited ("Mount Gibson").

The resistance of Aztec shareholders to Mount Gibson's inadequate offer is clearly proving frustrating to Mount Gibson's management. **Since Mount Gibson announced its offer for Aztec (over three months ago) and despite recently declaring it unconditional, Mount Gibson has only received acceptances for 2.8%<sup>1</sup> of Aztec shares** (excluding acquisition and acceptances from Aztec's previous major shareholder, Cambrian Mining Plc).

Your Directors thank you for your continued loyalty and support.

Aztec's Directors continue to recommend that shareholders **REJECT** the inadequate offer from Mount Gibson.

### **Shanghai Merchants Holdings Limited**

Aztec shareholders need to be aware of the important developments that occurred yesterday which could have significant ramifications for Mount Gibson's takeover offer.

Shanghai Merchants Holdings Limited ("Shanghai Merchants") has announced today that it has become a substantial shareholder holding 6.57% of Aztec. In an initial conversation with representatives of this company, **Shanghai Merchants have indicated strong support for your company, its board and management as well as its ongoing strategy to develop the Koolan Island iron ore project and become a significant participant in the Western Australian iron ore sector.**

Aztec also notes the announcement on Tuesday 31 October that Mount Gibson's major shareholder, COL Capital, has sold its entire shareholding of 48,373,197 shares representing 10.63% of Mount Gibson. These shares have been acquired by Shanghai Merchants.

Aztec Directors are surprised by the COL Capital divestment.

On the basis of recent statements by Mount Gibson, Aztec Directors and shareholders were led to believe that COL Capital strongly supported the Mount Gibson offer for Aztec.

- In the Bidder's Statement, Mount Gibson stated that *"the offer has been strongly endorsed by the largest shareholders in both Aztec and Mount Gibson"* and that *"COL Capital, the largest shareholder in Mount Gibson has also welcomed the offer and indicated that it supports the offer to merge with Aztec"*.

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<sup>1</sup> As at 1 November 2006, after adjusting for the issue of 77.78 million shares to Australian Royalties Corporation Pty Ltd, which was announced to the Australian Stock Exchange on 24 October 2006



- This endorsement was reiterated in Mount Gibson's media statement dated 2 August 2006.

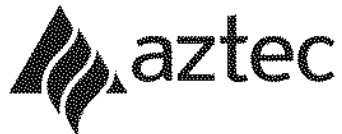
This sudden exit by COL Capital therefore raises significant uncertainty in respect of both Mount Gibson and its bid for Aztec.

### **Mount Gibson Letter to Aztec Shareholders**

**The letter to Aztec shareholders dated 31 October 2006 is a clear example of Mount Gibson's frustration as well as Mount Gibson's persistent attempts to distort the facts.** Aztec's Directors refute absolutely the allegation that they have misled Aztec shareholders in any way.

Mount Gibson's letter is an attempt to undermine recent disclosures by Aztec for the benefit of Mount Gibson. At the risk of repeating itself, Aztec notes the following:

- In respect of the repurchase right previously held by Australian Royalties Corporation Pty Limited ("ARC"), Aztec refutes Mount Gibson's allegations and notes that it had disclosed this information and its position in this regard in the Target's Statement, Prospectus and other ASX releases.
- Aztec Directors stand by their statement that the agreement with ARC was an excellent outcome for Aztec shareholders. The purchase price was based on the current mining inventory for the Koolan Island project (ie 29.1 million tonnes) with no allowance for any exploration upside.
- Aztec has fully disclosed the situation in respect of the caveats. The Aztec Directors are totally satisfied as to how Aztec management dealt with the caveats and secured the finance facilities. Aztec shareholders should be aware that:
  - Mount Gibson's bid was unaffected by the caveats as they were not in existence at the time Mount Gibson launched its offer for Aztec; and
  - Following resolution of the situation with ARC and finalisation of the finance facilities, Mount Gibson elected to declare its bid unconditional, indicating that the actions by Aztec had, at the very least, maintained the value of the company.
- There have been no construction delays at Koolan Island since commencement of work. **Mount Gibson has no basis for making any comment to the contrary. Their need to speculate on this further demonstrates their frustration and desperation.** Aztec continues to maintain its position that first mining and stockpiling of iron ore will commence by the end of 2006 and first shipments of iron ore will commence in early 2007.
- The issue of shares to ARC was based on the Volume Weighted Average Price of Aztec shares for the month prior to the transaction. Valuing shares at the market price is normal industry practice when shares are used as consideration for acquisitions. This issue price cannot be compared to the price that Mount Gibson is required to pay for control of Aztec which must reflect not only fair value but also include a premium for control.



Aztec's Directors recently engaged with Mount Gibson management with a view to reaching a commercial outcome in relation to the Offer from Mount Gibson. However Mount Gibson has elected not to resume discussions but rather to continue along its current course of action. While Aztec Directors are disappointed with this approach, they will continue to work in the best interests of Aztec shareholders and concentrate on successfully completing the development and operation of the Koolan Island Project.

On this basis, Aztec's Directors continue to recommend that shareholders **REJECT** the inadequate offer from Mount Gibson.

**Yours sincerely**

A handwritten signature in black ink, appearing to read "Ian Burston".

Ian Burston <sup>AM</sup>  
**Chairman**

*For further information please contact:*

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