



Mount Gibson Iron Limited

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

TAKEOVER BID FOR AZTEC RESOURCES LIMITED - FIRST SUPPLEMENTARY BIDDER'S STATEMENT

First Supplementary Bidder's statement

We attached, by way of service pursuant to paragraph 647(3)(b) of the Corporations Act 2001 (Cth), a copy of Mount Gibson's first supplementary bidders statement dated 6 September 2006 in relation to Mount Gibson Iron Limited's off-market bid for all of the fully paid ordinary shares in the capital of Aztec Resources Limited ("**Aztec**") (ASX Code: AZR) including those issued during the offer period.

Yours sincerely,
MOUNT GIBSON IRON LIMITED

Angela Dent
Company Secretary

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or Mr Alan Rule
Finance Director

This document is a supplementary bidder's statement under section 643 of the Corporations Act 2001 (Cth). It is the first supplementary bidder's statement (**First Supplementary Bidder's Statement**) issued by Mount Gibson Iron Limited ACN 008 670 817 (**Mount Gibson**) in relation to its off-market takeover bid for all the fully paid ordinary shares in Aztec Resources Limited ACN 078 670 817 (**Aztec**).

This First Supplementary Bidder's Statement supplements, and should be read together with, Mount Gibson's bidder's statement dated 11 August 2006 (**Bidder's Statement**). A copy of this First Supplementary Bidder's Statement has been lodged with ASIC. Neither ASIC nor any of its officers take any responsibility for its contents.



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6 September 2006

Dear Aztec Shareholder

By now you will have received Mount Gibson's bidder's statement dated 11 August 2006 (**Bidder's Statement**), which contained an offer from Mount Gibson dated 28 August 2006 (**Offer**). Under the Offer, Mount Gibson is offering to purchase all your Aztec shares for consideration of one Mount Gibson share for every three Aztec shares you own.

The purpose of this letter is to provide you with further information relating to Mount Gibson's projects and finances, including Mount Gibson's audited results for the 2005/06 financial year.

Tallering Peak

As noted in the Bidder's Statement, Tallering Peak is scheduled to mine iron ore at the rate of 3 Mtpa within the first half of the 2006/07 financial year. Mount Gibson undertook extensive waste development work at the mine in the second half of the 2005/06 financial year, to enable the operation to achieve a life of mine ore mining rate of 3 Mtpa. This waste development work entailed capital expenditure in the order of \$35.5 million for the six months ended 30 June 2006, which has been funded through operational cashflow.

Based on Mount Gibson's operational results for the months of July and August 2006, in which a total in excess of 750,000 tonnes of ore was mined, Mount Gibson has achieved this scheduled mining rate of 3 Mtpa (although it should be noted that Tallering Peak has yet to produce at this rate over any twelve month period).

Achievement of the scheduled mining rate of 3 Mtpa is, of course, subject to the usual operational risks for mining activity of the kind carried out at Tallering Peak. Those risks are outlined in section 9 of the Bidder's Statement. The Mount Gibson directors are of the view that there are no other specific risks to the project which may impact on the attainment of the scheduled mining rate and which are material in the context of the Offer.

Extension Hill DSO Project

The Extension Hill DSO Project, which is at a relatively early stage of development, has been the subject of a comprehensive desktop study. The desktop study was undertaken immediately following completion of a detailed feasibility study for the Extension Hill Magnetite Project and has been externally reviewed. The desktop study uses the iron ore prices contained in the report by CRU Strategies included in the Bidder's Statement. As Mount Gibson has previously disclosed, the desktop study estimates are within a $\pm 15-25\%$ range and therefore are not as reliable as the results of a definitive feasibility study (DFS).

Aztec shareholders should be aware that, as is the case with the development of any major mine in Western Australia, the development of the Extension Hill DSO Project will be subject to a number of regulatory approvals, including Environmental Approval. The Environmental Approval process is now at an advanced stage, with notification periods having expired and submissions having been made by interested parties. The outcome of the requisite application is expected to be known by the end of 2006. In addition, all key native title agreements are in place.

Any decision to commence mining at Extension Hill will be conditional on the completion of a DFS, Mount Gibson Board approval and receipt of necessary regulatory approvals.

Aztec shareholders should note that, by virtue of the relatively early stage of its development, estimates of the timing and amount of production from the Extension Hill DSO Project contained in the Bidder's Statement (including in the presentation of Merged Entity estimated production), should be regarded as inherently more uncertain than production schedules for Talling Peak. The Mount Gibson Board does not believe that there are any other particular issues or risks in relation to the Extension Hill DSO Project of which Aztec shareholders need to be aware.

Sales arrangements

All of the production from Talling Peak for the life of mine is sold under sales contracts which are in standard industry form. Contract pricing is based on the prices achieved by the major Pilbara producers and is subject to various adjustments for matters such as the level of moisture and impurities in the ore.

Sales contracts on similar terms have been entered into in relation to 1.4 Mtpa of production from the Extension Hill DSO Project. Those contracts are subject to completion of the project and entail no penalties or cancellation costs if the project is delayed or does not proceed.

Asia Iron Holdings / Extension Hill Magnetite

As announced on 22 August 2006, Mount Gibson has completed the sale of its interest in the Extension Hill Magnetite Project, which was held through its 73% shareholding in Asia Iron Holdings, to Sinom Investments.

The sale proceeds of \$52.5 million have now been placed in escrow pending the receipt of the necessary Environmental Approval for the project by not later than 30 November 2007. Mount Gibson is of the view that the necessary Environmental Approval will be received by December 2006 however, Aztec shareholders should be aware that this cannot be guaranteed.

Mount Gibson proposes to apply the funds from the sale of Asia Iron Holdings (net of usual transaction costs), upon release from escrow, to the development of the Extension Hill DSO Project. If the proceeds from the sale of Asia Iron Holdings are not released to Mount Gibson due to failure to obtain Environmental Approval, it is likely that, for the same reason, Mount Gibson would be unable to commence mining at the Extension Hill DSO Project. The Mount Gibson directors do not consider that to be a likely scenario.

Audited financial statements for financial year ended 30 June 2006

A summary of the Mount Gibson Group's audited financial statements for the financial year ended 30 June 2006, which were released to the ASX on 5 September 2006, is attached as annexure 1 to this letter. The information presented relates to Mount Gibson on a stand-alone basis and accordingly does not reflect any impact of the Offer. The full financial accounts for Mount Gibson for the financial year ended 30 June 2006, which includes the notes to the accounts, can be found on Mount Gibson's website at www.mtgibsoniron.com.au

In summary:

- Mount Gibson's audited after-tax profit for the 2006 financial year was \$23.5 million, compared to \$13.5 million for the financial year ended 30 June 2005.
- During December 2005, Mount Gibson announced that detailed mine schedules to exploit the current Ore Reserve had recently been completed which indicated that development rates at Talling Peak needed to increase substantially to sustain 3 Mtpa of ore production through to the end of mine life.
- The increased rate of material movement and cut-backs of existing open pits commenced in January 2006 following the mobilisation of additional hired mining equipment, which gave the operation the capacity to load and haul approximately 32 Mtpa of ore and waste annually over the next two years.
- Waste development in the second half of the 2006 financial year prepared Mount Gibson for ore production growth, with the company focusing resources on improving access to deeper ore zones, enabling Talling Peak to achieve sustainable ore production of 3 Mtpa for the remaining life of mine.
- This operational imperative resulted in a decline in financial performance for the 6 months to 30 June 2006 compared with the 6 months to 31 December 2005. 403,000 tonnes of ore were mined and 450,000 tonnes of ore sold for the 6 months ended 30 June 2006. Consequently, the net profit after tax for the 6 months ended 30 June 2006 was \$1.4 million compared with \$22.1 million for the 6 months to 31 December 2005.
- Production rates at Talling Peak for the 12 months ended 30 June 2006 compared with the 12 months ended 30 June 2005 were:
 - waste mined increased by 73%;
 - ore tonnes mined decreased by 42%; and
 - ore tonnes sold decreased by 26%.
- Revenue from the sale of ore decreased by 5% in 2005/06 from the previous year, resulting from a decrease of 26% in ore tonnes sold, which was partially offset by an increase of 29% in the realised selling price per tonne of ore sold over the previous year.
- Total cost of sales decreased marginally over the previous year whilst the cost per tonne sold increased by 33% which is directly related to the Company's inability to access ore whilst significant open pit cut backs were in progress. The increase in cost per tonne sold can also be attributed to significant cost increases in fuel, labour, tyres and consumables in line with cost increases experienced by all mine operators in the Western Australian mining sector. It is anticipated that the cost per tonne sold will decrease as the mine has achieved 3 Mtpa rates.

- The income tax benefit reflects the recognition in the current period of tax losses available for use by Mount Gibson.
- During the financial year, Mount Gibson incurred \$54.2 million (2005:\$24.1 million) in waste development expenditure, of which \$35.5 million was incurred in the 6 months ended 30 June 2006. In accordance with its usual accounting practice, waste development expenditure for the period has been capitalised in Mount Gibson's balance sheet and will be amortised over the expected life of the mine. Mount Gibson's focus on substantially increasing waste development to ensure 3 Mtpa of sustainable ore production for the remaining mine life combined with lower ore sales as a consequence of restricted access to ore resulting from the planned open pit cut-backs during the 6 months ended 30 June 2006 reduced cash on hand to \$4.5 million.
- Mount Gibson recently advised that Tallering Peak had achieved a record 340,958 tonnes of ore mined during the month of July and since then has achieved a record 413,529 tonnes of ore mined for the month of August, totalling in excess of 750,000 tonnes of ore mined for the first 2 months of the year.
- Given the encouraging infill drilling results below the current pit floor and the mine's demonstrated ability in July and August 2006 to achieve its target of 3 Mtpa production rates, Mount Gibson is confident of producing 3 Mtpa of ore in the 2006/2007 financial year.

Updated pro forma financial information for the Merged Group

The pro forma balance sheet of the Merged Group contained in section 8.4(b) of the Bidder's Statement was presented as at 31 December 2005.

An updated pro forma financial consolidated balance for the Merged Group as at 30 June 2006 is set out in annexure 2 below.

Funding of operations

Mount Gibson's Tallering Peak operations are currently fully funded through operational cash-flow and by access to an external debt facility of \$20 million.

The Extension Hill DSO Project is not currently funded, as the magnitude and nature of funding requirements can only be determined following the results of the DFS. However, as noted above, Mount Gibson plans to apply the proceeds from the sale of its interest in Asia Iron Holdings to the development of the project, coupled with cashflow expected to be generated by the Tallering Peak operations. Aztec shareholders should note that these plans may be affected by any failure to obtain the sale proceeds, although, as noted above, this will only occur if Mount Gibson is unable to obtain the necessary Environmental Approval, in which case it will be unlikely that the Extension Hill DSO Project can be developed in any event. The Mount Gibson directors are not aware of any reason why this should be the case.

In making the Offer, Mount Gibson has assumed that the Aztec Board has ensured that the current committed construction capital and ongoing working capital requirements for the development of Aztec's Koolan Island project are adequately funded. Should this not be the case, any further funding requirements will need to be pursued through traditional sources, such as external facilities or additional equity or should Mount Gibson acquire 100% of Aztec, Mount Gibson's cash flows could provide the funding requirements.

Industry consolidation

Prior to making the Offer, discussions at a management level took place between Mount Gibson, Aztec and Gindalbie Metals Limited (**Gindalbie**) regarding a possible three way merger between the respective companies. You may have seen some reporting of those discussions and speculation regarding consolidation of the iron ore industry in the press.

Aztec shareholders should note that the management of Mount Gibson ultimately decided not to pursue a three way merger and the proposal was never presented to the Mount Gibson board for determination. Mount Gibson does not have any present intention to pursue a merger with or takeover of any entity, other than its current Offer for Aztec.

Merged Group market capitalisation

In section 8.1 of its Bidder's Statement, Mount Gibson stated:

"Based on the share prices as at 11 August 2006 (being the date of this Bidder's Statement), the Merged Group would have a market capitalisation of in excess of \$600 million with potential for significant upside through a market re-rating."

The reference in this sentence to "11 August 2006 (being the date of this Bidder's Statement)" should be replaced with "21 July 2006 (being the last trading day before the Offer was announced)".

Takeovers Panel proceedings

You may also be aware that Aztec has applied to the Takeovers Panel in relation to certain matters including alleged deficiencies in the Bidder's Statement. As at the date of this letter, those proceedings are continuing.

Definitions

Unless the context otherwise requires, terms defined in the Bidder's Statement have the same meaning as in this First Supplementary Bidder's Statement.

Environmental Approval means the environmental approval for mining, processing and transportation of concentrate from the Extension Hill Magnetite Project and mining at the Extension Hill DSO Project under sections 38 and 45 of the Environmental Protection Act.

Signed for and on behalf of Mount Gibson following a unanimous resolution of its directors.



Director

Dated: 6 September 2006

Annexure 1 – Mount Gibson summarised audited financial statements for financial year ended 30 June 2006

Balance sheet

The summarised historical balance sheet of the Mount Gibson Group shown below has been extracted from the audited balance sheet as at 30 June 2006.

	30 June 2006	30 June 2005
	\$'000	\$'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	4,548	33,633
Trade and other receivables	6,180	6,632
Inventories	5,685	5,296
Prepayments	877	625
Derivatives	2,541	-
	19,831	46,186
Assets classified as held for sale	46,093	-
TOTAL CURRENT ASSETS	65,924	46,186
NON-CURRENT ASSETS		
Available for sale financial assets	1,248	2,942
Property, plant and equipment	20,345	17,665
Deferred acquisition, exploration, evaluation and development costs	4,176	29,104
Mine properties	51,567	15,131
	77,336	64,842
TOTAL NON-CURRENT ASSETS	77,336	64,842
TOTAL ASSETS	143,260	111,028
LIABILITIES		
CURRENT LIABILITIES		
Trade payables and other liabilities	17,836	10,363
Interest-bearing loans and borrowings	1,594	2,780
Derivatives	1,470	-
Provisions	463	300
	21,363	13,443
Liabilities associated with assets classified as held for sale	3,068	-
TOTAL CURRENT LIABILITIES	24,431	13,443
NON-CURRENT LIABILITIES		
Provisions	702	655
Interest-bearing loans and borrowings	4,247	8,938
Deferred income tax liabilities	4,684	11,407
	9,633	21,000
TOTAL NON-CURRENT LIABILITIES	9,633	21,000
TOTAL LIABILITIES	34,064	34,443
NET ASSETS	109,196	76,585
EQUITY		
Issued capital	86,851	79,381
Retained earnings (Accumulated losses)	10,096	(13,383)
Reserves	473	1,631
	97,420	67,629
Parent interests	97,420	67,629
Minority interest	11,776	8,956
TOTAL EQUITY	109,196	76,585

Mount Gibson First Supplementary Bidder's Statement
6 September 2006

This balance sheet as at 30 June 2006 has been prepared based on Australian equivalents to International Financial Reporting Standards (**AIFRS**) and except for financial instruments, comparatives for the full-year ended 30 June 2005 have been restated accordingly. Mount Gibson has taken the exemption available under AASB 1 to only apply AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" from 1 July 2005.

As at 30 June 2006, the Mount Gibson Group audited consolidated balance sheet included the net assets of the Asia Iron Holdings group of \$43.0 million. Total assets of \$46.1 million included in the balance sheet relating to the Asia Iron Holdings group have been aggregated and disclosed as "Assets classified as held for sale". Total liabilities of \$3.1 million included in the balance sheet relating to the Asia Iron Holdings group have been aggregated and disclosed as "Liabilities associated with assets classified as held for sale". The sale proceeds of \$52.5 million before tax have not been reflected in the balance sheet as Environmental Approval has not yet been received.

Profit and loss statement

The summarised historical profit and loss statement of the Mount Gibson Group shown below has been extracted from the audited profit and loss statement for the year ended 30 June 2006.

	12 months to 30 June 2006 \$'000	12 months to 30 June 2005 \$'000
Sale of goods	73,389	76,872
Other revenue	1,907	471
Total revenue	75,296	77,343
Cost of sales	(49,999)	(50,487)
Gross profit	25,297	26,856
Other income	1,232	128
Administrative expenses	(8,368)	(2,463)
Exploration expenses	(814)	(666)
Development expenses	-	(28)
Profit before tax and finance costs	17,347	23,827
Finance costs	(1,196)	(1,795)
Profit before income tax	16,151	22,032
Income tax benefit/(expense)	6,922	(8,530)
Net profit for the period	23,073	13,502
Loss attributable to minority interest	406	-
Net profit attributable to members of Mount Gibson	23,479	13,502
Earnings per share (cents per share)		
- basic earnings per share	6.01	4.24
- diluted earnings per share	5.88	4.08
- dividends per share	-	-

This profit and loss statement for the 12 months ended 30 June 2006 has been prepared based on AIFRS and except for financial instruments, comparatives for the full-year ended 30 June 2005 have been restated accordingly. Mount Gibson has taken the exemption available under AASB 1 to only apply AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" from 1 July 2005.

Annexure 2 – Updated Merged Group pro forma balance sheet

Set out below is a pro forma consolidated balance sheet for the Merged Group as at 30 June 2006 which has been prepared using:

- (a) the audited consolidated balance sheet for the Mount Gibson Group as at 30 June 2006; and
- (b) the balance sheet of Aztec as at 31 December 2005 extracted from the half year financial report of Aztec for the period ended 31 December 2005. The Aztec half year financial report was reviewed by Ernst & Young in accordance with Australian Auditing Standards and the unqualified review opinion was signed on 9 March 2006.

The financial information is provided for illustrative purposes only and has been prepared on an abbreviated basis. It does not contain all the disclosures usually provided in an Annual Report in accordance with the Corporations Act.

Pro forma adjustments and assumptions have been made to present the consolidated balance sheet as at 30 June 2006. Acquisition accounting entries have then been made, consistent with the terms of the Offer and the assumptions set out below, in order to arrive at a pro forma consolidated balance sheet for the Merged Group as at 30 June 2006.

The directors of Mount Gibson will undertake a comprehensive assessment of the fair value of the assets and liabilities acquired after the transaction has been completed.

The pro forma balance sheet is indicative only. The directors of Mount Gibson have drawn their conclusions based on the known facts and other information publicly available. If the facts, circumstances, assumptions or other information should prove to be different to that described, the conclusions may change accordingly.

All adjustments have been made in accordance with AIFRS and Australian Accounting Standards.

Mount Gibson First Supplementary Bidder's Statement
6 September 2006

Pro forma consolidated balance sheet of the Merged Group as at 30 June 2006

	Mount Gibson 30 June 2006 \$'000	Aztec 31 December 2005 \$'000	Adjustments \$'000	Merged Group \$'000
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4,548	13,842	45,424	63,814
Trade and other receivables	6,180	354	-	6,534
Inventories	5,685	-	-	5,685
Prepayments	877	317	-	1,194
Available for sale financial assets	-	401	-	401
Derivatives	2,541	-	-	2,541
	19,831	14,914	45,424	80,169
Assets classified as held for sale	46,093	-	-	46,093
TOTAL CURRENT ASSETS	65,924	14,914	45,424	126,262
NON-CURRENT ASSETS				
Available for sale financial assets	1,248	-	-	1,248
Property, plant and equipment	20,345	1,843	34,000	56,188
Deferred acquisition, exploration, evaluation and development costs	4,176	14,647	184,370	203,193
Mine properties	51,567	3,428	-	54,995
TOTAL NON-CURRENT ASSETS	77,336	19,918	218,370	315,624
TOTAL ASSETS	143,260	34,832	263,794	441,886
LIABILITIES				
CURRENT LIABILITIES				
Trade payables and other liabilities	17,836	2,554	-	20,390
Interest-bearing loans and borrowings	1,594	-	-	1,594
Derivatives	1,470	-	-	1,470
Provisions	463	64	-	527
	21,363	2,618	-	23,981
Liabilities associated with assets classified as held for sale	3,068	-	-	3,068
TOTAL CURRENT LIABILITIES	24,431	2,618	-	27,049
NON-CURRENT LIABILITIES				
Provisions	702	-	-	702
Interest-bearing loans and borrowings	4,247	-	-	4,247
Deferred income tax liabilities	4,684	-	-	4,684
TOTAL NON-CURRENT LIABILITIES	9,633	-	-	9,633
TOTAL LIABILITIES	34,064	2,618	-	36,682
NET ASSETS	109,196	32,214	263,794	405,204
EQUITY				
Issued capital	86,851	51,943	244,065	382,859
Retained earnings / (Accumulated losses)	10,096	(20,160)	20,160	10,096
Reserves	473	431	(431)	473
Parent interests	97,420	32,214	263,794	393,428
Minority interest	11,776	-	-	11,776
TOTAL EQUITY	109,196	32,214	263,794	405,204

Pro forma adjustments

The following adjustments and assumptions have been made in the preparation of the pro forma consolidated balance sheet set out above:

- The unaudited balance sheet of Aztec as at 31 December 2005 has been adjusted to include the transactions set out below since 31 December 2005, all of which have occurred:
 - Proceeds of rights issue of \$39.7 million (net of costs of transaction) completed on 24 January 2006;
 - Proceeds of listed options exercised of \$39.7 million (net of costs of transaction) completed in August 2006;
 - Payment for capital expenditure spent during the 6 months to 30 June 2006 by Aztec on the Koolan Island project estimated at \$34 million.
- The accounting policies applied by Aztec have been consistently applied in the preparation of the unaudited pro forma balance sheet, and no review has been made on the appropriateness of these policies of accounting treatments.
- The issue of 347,700,592 Mount Gibson Shares at an issue price of \$0.789 to shareholders of Aztec pursuant to the Offer and before transaction costs. Approximately \$22 million in costs inclusive of stamp duty, fees for professional services and other transactional costs are expected to be incurred by Mount Gibson in relation to the Offer and have been capitalised as a component of the cost of acquiring Aztec as part of Mount Gibson's investment in Aztec. The excess of consideration paid (including costs) by Mount Gibson over the fair value of Aztec's net assets resulting from the transaction has been attributed in full to deferred acquisition, exploration, evaluation and development costs. This has resulted in the recognition of exploration expenditure acquired in the proposed transaction of \$184.4 million. The accounting for the proposed transaction has been treated as the acquisition of an asset as the directors are of the opinion that the proposed transaction does not fall within the scope of AASB 3 "Business Combinations".
- No adjustment has been made for any Mount Gibson Shares to be issued as a consequence of the exercise of any unlisted Aztec options.