



QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED

ABN 87 008 670 817

Level 1, 7 Havelock Street,
West Perth, WA 6005
PO Box 55, West Perth, WA 6872

Phone: 61 8 9426 7500

Fax: 61 8 9485 2305

E-mail: admin@mtgibsoniron.com.au

Asx Code: MGX

CONTACTS:

Luke Tonkin - *Managing Director*

Alan Rule - *Finance Director*

MOUNT GIBSON IRON LIMITED (“MGI”) QUARTERLY REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2006 ASX ANNOUNCEMENT 17 OCTOBER 2006

HIGHLIGHTS

- Record production of quality hematite ore for the September quarter
- Record ore tonnage crushed and screened in September
- 3Mtpa hematite ore production rates achieved in the first quarter of 2006/07 financial year
- Promising drill intersections along strike and adjacent to current Tallering Peak open cut development
- In fill drilling results to date continue to confirm the global Mineral Resources and Mining Reserves at Tallering Peak
- On 3 August 2006, MGI announced:
 - Increase in Mining Reserve of 75% to 32.5 Mt; and
 - Increase in Mineral Resource of 27% to 42.7 Mt
- \$52.5 million from the sale by MGI of its 73% investment in Asia Iron Holdings Limited to Sinom Investments Limited placed in escrow
- Off-market scrip takeover offer for Aztec Resources Limited announced on 24 July 2006. The merger will establish Australia’s leading pure-play iron ore producer with potential to produce 10 Mtpa of hematite ore in 2009 when concluded:
 - MGI has offered 1 new MGI share for every 3 Aztec shares;
 - Merged company will have a market capitalisation that places it in the ASX200;
 - MGI currently has relevant interest in 33.2% of Aztec.



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TALLERING PEAK HEMATITE MINING OPERATIONS

Mining at Talling Peak proceeded at planned production rates and delivered record ore production in the September quarter. In addition, record ore crushing and screening throughput was achieved in the month of September with 286,017 tonnes of ore crushed and screened.

Production for the September 2006 quarter and year to date is set out below:

		Sept 2006 qtr 000's	TOTAL YTD 000's
Mining			
Waste Mined	<i>bcm</i>	2,541	2,541
Ore Mined	<i>wmt</i>	1,092	1,092
Crushing			
Lump	<i>wmt</i>	411	411
Fines	<i>wmt</i>	308	308
Total	<i>wmt</i>	719	719
Transport to Mullewa Railhead			
Lump	<i>wmt</i>	391	391
Fines	<i>wmt</i>	254	254
Total	<i>wmt</i>	645	645
Transport to Geraldton Port			
Lump	<i>wmt</i>	300	300
Fines	<i>wmt</i>	216	216
Total	<i>wmt</i>	516	516
Shipping			
Lump	<i>dmt</i>	235	235
Fines	<i>dmt</i>	166	166
Total	<i>dmt</i>	401	401

The delivery and subsequent commissioning of the necessary mining fleet to increase annual material movements to sustain 3 Mtpa of ore production was completed during the quarter and the mining fleet has operated satisfactorily. Improvements in productivity are expected as operational and maintenance employees become more familiar with the new large scale fleet and as the bench areas increase with the development of multiple cut backs.

Material movement for the quarter exceeded 2.79 million BCM which included a record 1,091,970 tonnes of hematite ore. Production for the quarter has built ore stockpiles which enhance the Company's ability to blend material at the optimum specification for shipping.



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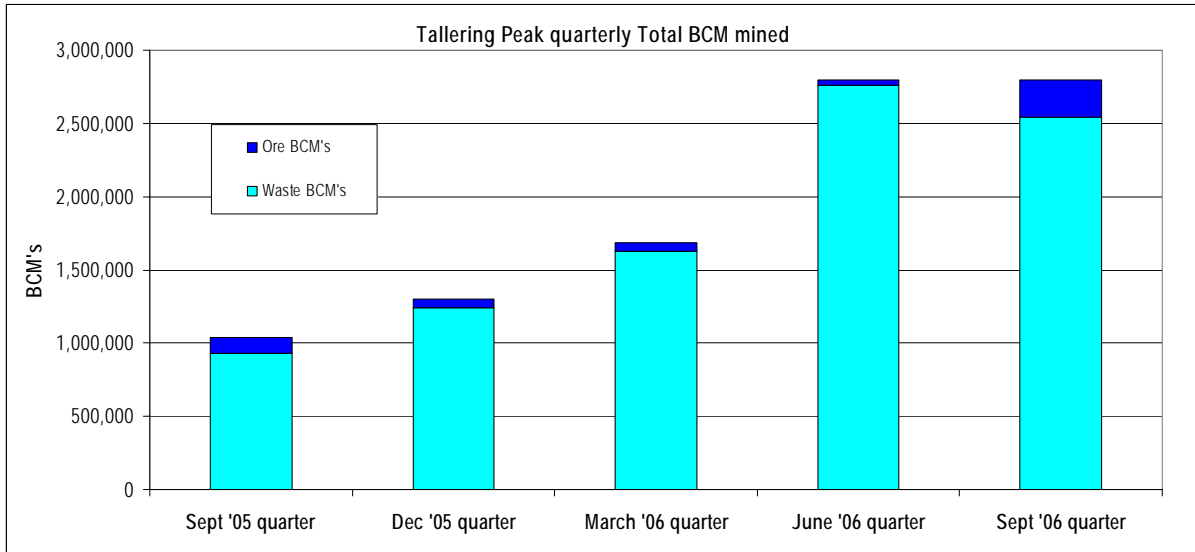


Figure 1 - Talling Peak total quarterly material movement

Whilst the Talling Peak operation has built ore stocks, sales of ore have been as expected. Sales are expected to increase in the second quarter. In line with the increase in Talling Peak's ore production, crushing, road transport and rail transport capacities have also increased with all facilities meeting or exceeding required production rates.

In March 2006 MGI announced the purchase of the crushing facility and associated plant and equipment at Talling Peak from the incumbent crushing and screening contractor citing operational and financial advantages as the main drivers. The newly established crushing and screening record exceeds the previous best throughput under contract operation by 30% and comparable unit operating costs have also declined significantly with further improvement planned.

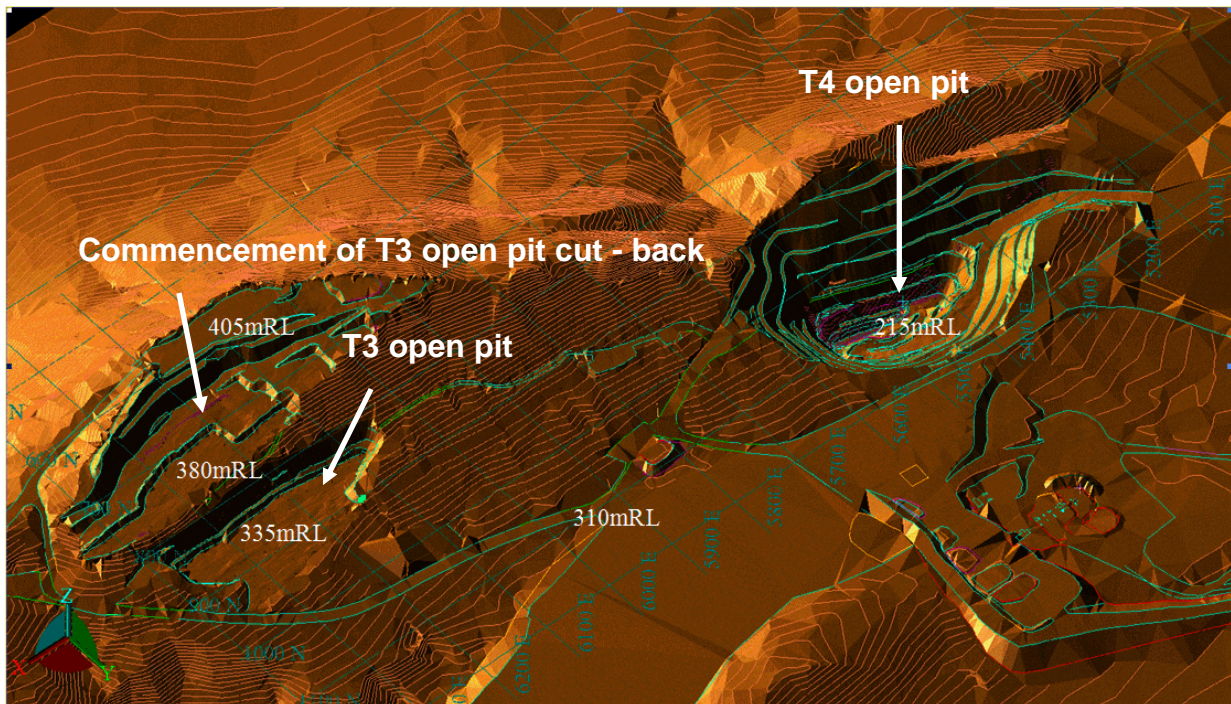


Figure 2 – Status of Talling Peak mine development in December 2005 looking south



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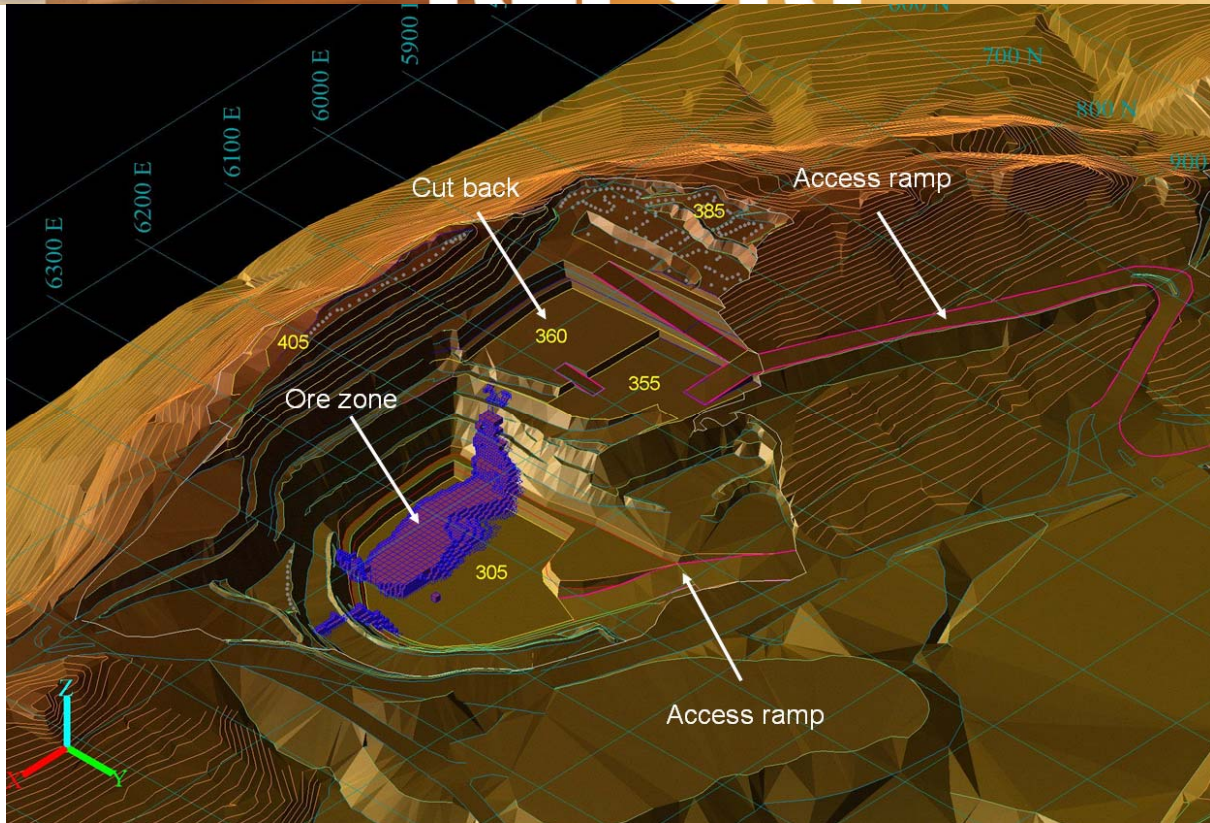


Figure 3 – Talling Peak T3b open pit design and progress September 2006 looking south

Figure 2 shows Talling Peak mine development to December 2005 whilst Figure 3 shows the considerable waste movement completed to the end of September 2006. It can be seen that the exposure of the Talling Peak ore zone is well established and is being exploited in the north eastern benches of the main pit and that cut backs to the south west are also well established and are dropping down to the known mineral resource. Once these cut backs intersect the hematite ore, the strike length exposure of the ore at Talling Peak will increase significantly.

Figures 4 and 5 are photographic images of the mining progress being made at Talling Peak. As initial pioneering mining work is completed at the top of the Range to establish cut backs, the floor area of these cut backs will increase allowing a significant increase in productivity. The development of the Talling Peak open pit will progress further to the south west over the next twelve months and in doing so will incorporate staged waste removal that will allow exposure of high grade hematite ore over an increased strike length from north east to south west. Figure 6 demonstrates the expected development of the Talling Peak mine by the end of September 2007 under the current mine operating plan. MGI will continue to optimize the Talling Peak mine operating plan as new information is gathered and as operational productivity improves.

Development of the Talling Peak T5 satellite open pit continued satisfactorily during the quarter with the T5 cut back approaching the original T5 open pit floor. T5 has historically been mined by a mining contractor however to improve operational and financial performance MGI assumed owner mining of T5 at the end of August.

Ore mined from T5 is lower grade and contains higher contaminant levels than Talling Peak Main Pit ore and will be blended with premium quality ore from Main Pit to meet customer specifications. Mining of T5 is expected to be completed in the first half of the 2007-08 financial year.

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Figure 4 – Tallering Peak T3b open pit September 2006 looking north-east



Figure 5 – Tallering Peak T3b open pit September 2006 looking south-west



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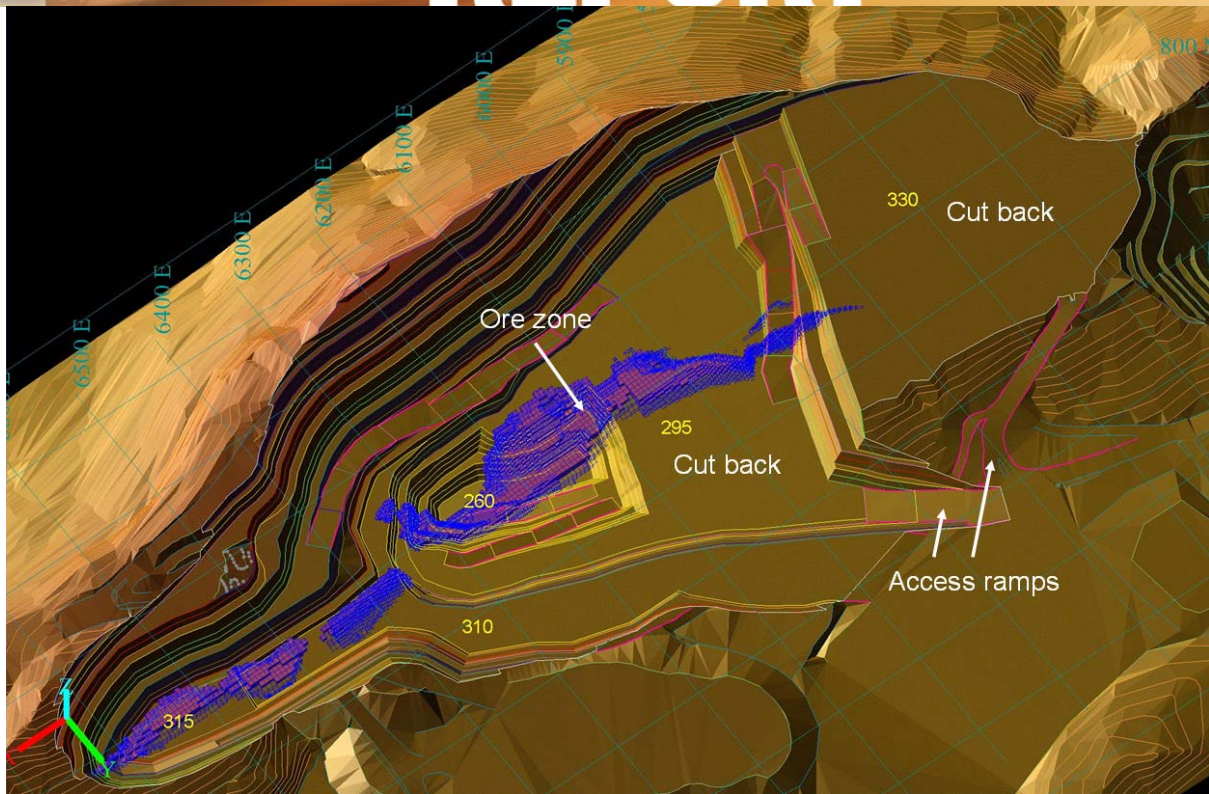


Figure 6 – Talling Peak open pit design and expected mining progress to September 2007

Infill resource definition drilling work continued during the quarter, with over half the proposed program completed during the quarter despite difficulties in securing a second drilling rig. A total of 8,027m was drilled in 74 RC holes during the quarter, taking the infill drilling cumulative total to 12,514m in 119 holes. A further 3,000m of RC will be drilled to complete the initial program of 15,400m in 148 holes by early November. This intensity of infill drilling provides detailed data which allows control of mine planning and grade control.

Work to date has covered most of the active mining area at T3, extended eastwards along strike across the T2 area, and is now focussed to the west of T3 in the area of the first planned T6 cutback.

The T2 area presently contains only Inferred Resources with no established Reserves. This new drilling has made a large number of promising intersections, typically 10m @ 61% Fe, with a best of result on section 6625E, 300m east of T3, of:

TPK321 14-29m 15m @ 65.17% Fe, 2.55% SiO₂, 0.96% Al₂O₃, 0.099% S

Results to date elsewhere have also confirmed or enhanced the global Mineral Resources and Mining Reserves at Talling Peak. More importantly, this work has tripled or quadrupled the amount of data available within pit design volumes, enabling more confident understanding of local variation in orebody geometry, iron grades, and contaminant grades. Benefits are already evident in improved short-term scheduling and reconciliation, with resource modelling already underway over sections of the orebody to facilitate better medium and long-term planning. Re-interpretation and the modelling of the entire Talling Peak orebody, incorporating all new data, is scheduled to be completed by the end of the current quarter.



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EXTENSION HILL MAGNETITE PROJECT

The Extension Hill Magnetite Project proposes the mining of magnetite ore from the Extension Hill tenements and the concentrating of that ore to produce 5 Mtpa of magnetite concentrate, to be transported via a 270 kilometre slurry pipeline from Extension Hill to the port of Geraldton for storage and loading onto vessels. The feasibility study for the Extension Hill Magnetite Project was finalised in early 2006 based on a Mineral Resource of 240 Mt of magnetite ore.

MGI and Mount Gibson Mining Limited (“MGM”) entered into an agreement on 5 July 2006 with Sinom Investments Limited (“Sinom Investments”) for the sale to Sinom Investments of MGI / MGM combined 73% interest in Asia Iron Holdings Limited (“Asia Iron”), the ultimate owner of the Extension Hill Magnetite Project.

Completion occurred on 21 August 2006 and the sale proceeds of \$52.5 million were placed in escrow pending environmental approval from the WA State Government. A decision on environmental approval is anticipated by the end of 2006.

If environmental approval is not obtained by 30 November 2007, Sinom Investments may terminate the agreement and the sale shares will be returned to MGI and MGM. Consequently, MGI and MGM would then retain its indirect interest in the Extension Hill Magnetite Project and would re-assess the options available to it in respect of the project.

EXTENSION HILL DIRECT SHIPPING ORE (“DSO”) DESKTOP STUDY

MGI has completed a comprehensive desktop study of the Extension Hill DSO project which demonstrates that the project can provide outstanding financial results in a short time-frame, with minimal technical risks and relatively low capital requirements. This very favourable outcome results from short construction times, minimal pre-strip enabling full ore production by the third month of mining, and strong iron ore prices.

Definitive Feasibility Study (“DFS”) work on this project has progressed satisfactorily during the quarter. Highlights include:

- Formalising a management structure to take the project through the DFS to construction and commissioning;
- Commencement of detailed design work on the Great Northern Highway realignment and Perenjori Haul Road;
- Completion of aerial surveys and commencement of geotechnical field studies to support road design work;
- Identification, evaluation and refinement of an alternative approach to product storage and rehandling at Geraldton Port;
- Completion of geotechnical studies to support design work on the new port facility;
- Issuing Letters of Intent to rail service providers;
- Implementing a plan to manage the various statutory approval processes through to production;
- Finalising site layout design, commencing flora and fauna surveys over the site, road verge and powerline corridors;

Project capital cost estimate remains unchanged at \$67M. This includes \$4.4M for the DFS which incorporates \$0.6M in procurement or down-payments on long-lead time items.

Road and port facility design accounted for most of the work during the quarter. The Great Northern Highway realignment and haul road underpass design have been finalised and passed to MRWA for review. MGI is evaluating a number of alternatives in detail with the intent to design a public road upgrade which retains or enhances remnant and regrowth vegetation along the roadside.



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Extensive investigation into the design and operation of the port facility is being conducted. Existing facilities at the Geraldton Port are operationally and financially sub-optimal. MGI has reviewed selected port facilities in Taiwan similar to that contemplated for Geraldton which, combined with testwork in Germany, has confirmed feasibility of the basic design concept of a covered radial stacker/reclaimer. This concept represents an improvement in quality and capability of iron-ore infrastructure for Geraldton and Western Australia.

MGI owns 100% of the Extension Hill DSO (Direct Shipping Ore) Hematite project and intends, subject to Board approval, to develop the project. The DFS is expected to be completed by December 2006, with submission of a project proposal to the MGI Board shortly thereafter. Project commencement would then be subject to receipt of all statutory approvals, readiness of the new Berth 5 ship loader in Geraldton, completion of MGI's port facilities, availability of rail capacity, completion of road upgrades, and construction of site infrastructure. MGI is targeting the first quarter of 2008 for first product shipment from Geraldton, subject to various environmental and statutory approvals.

AZTEC

On 24 July 2006, MGI announced an offer for Aztec Resources Limited ("**Aztec**"), representing a landmark consolidation of Australia's emerging iron ore sector.

The merger will result in the creation of a leading independent Australian iron ore company with a market capitalisation of approximately \$600 million (assuming dilution for all in-the-money MGI and Aztec options), an asset portfolio offering near term cash flow, immediate growth potential supported by longer-life profile and longer term development opportunities.

Under the bid, MGI offered Aztec shareholders, by way of an off-market scrip takeover bid, 1 new MGI share for every 3 shares held in Aztec ("**Offer**"), valuing each Aztec share at \$0.263 based on MGI's volume weighted average price on 21 July 2006 of \$0.789, being the last trading day before announcement of the offer. The Offer is subject to a number of conditions, including a minimum acceptance condition of 90%, regulatory approvals, certain prescribed occurrences not having occurred and no material adverse change, acquisitions or disposals.

During the quarter, MGI exercised an option granted to MGI by Aztec's major shareholder, Cambrian Mining Plc ("**Cambrian**"), over 159,031,192 Aztec shares (equivalent to 15.24% of Aztec's issued capital), at the Offer price. In accordance with the terms of the option, MGI issued Cambrian one new MGI share for every three Aztec shares the subject of the option, being a total of 53,010,640 new MGI shares.

The Offer is scheduled to close on 27 October 2006.

As of the date of this report, MGI has a relevant interest in 33.2% of Aztec.

EXPLORATION AND EVALUATION EXPENDITURE

Expenditure of \$1.4 million was incurred during the quarter on further evaluation and exploration of hematite and magnetite deposits. The majority of the expenditure (\$0.9 million) was incurred by AIHL on the Extension Hill Magnetite and Nanjing Pellet Plant Projects.

Angela Dent
Company Secretary