



Mount Gibson Iron Limited

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MOUNT GIBSON ANNOUNCES SCRIP TAKEOVER OFFER FOR AZTEC TO CREATE \$600 MILLION AUSTRALIAN IRON ORE PRODUCER

- **Merger would establish Australia's leading pure-play iron ore producer with potential to produce 9.5 mtpa of hematite in 2009.**
- **Aztec's largest shareholder Cambrian Mining has entered into an option agreement to sell to Mount Gibson a stake of 19.9% in Aztec.**
- **Merged company would have a market capitalisation in excess of \$600 million, placing it in the ASX200.**
- **Offer represents a substantial 38.4% premium to Aztec's one month volume weighted average price to 19 July 2006¹.**
- **Well diversified asset portfolio with current cash flow and immediate growth potential.**
- **Experienced management team with complementary technical and operating skills.**
- **Merged entity well placed to progress further industry consolidation.**

Perth, Western Australia – 24 July 2006 – Iron ore company Mount Gibson Iron Limited (**ASX: MGX – “Mount Gibson”**) today announced the intention to merge with Aztec Resources Limited (**ASX: AZR – “Aztec”**), representing a landmark consolidation of Australia's emerging iron ore sector.

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

THE OFFER

Mount Gibson proposes to implement the merger by means of a scrip takeover bid for all shares in Aztec (including all shares issued as a result of the exercise of the Aztec listed options due to expire on 31 July 2006). Under the bid, Mount Gibson will offer Aztec shareholders 1 new Mount Gibson share for every 3 shares held in Aztec (“Offer”), valuing each Aztec share at \$0.263 based on the Mount Gibson volume weighted average price on 21 July 2006 of \$0.789, being the last trading day before announcement of the offer.

¹ Being the last trading day before media and market speculation arose about a possible takeover bid for Aztec by Mount Gibson

The offer represents:

- a 38.4% premium to the volume weighted average price for the one month to 19 July 2006¹;
- a 31.3% premium to the volume weighted average price for the three months to 19 July 2006¹; and
- a 40.9% premium to the volume weighted average price for the twelve months to 19 July 2006¹.

The Offer will be 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. A list of the proposed bid conditions is attached as Annexure A.

In addition, Aztec's major shareholder, Cambrian Mining Plc ("Cambrian"), has granted an option to Mount Gibson over Aztec shares equivalent to 19.9% of Aztec's issued capital, at the Offer price ("Call Option Agreement"). A summary of the Call Option Agreement is attached as Annexure B.

RATIONALE FOR THE MERGER

The merged entity – which will be headquartered in Perth, Western Australia – will become a substantial pure-play iron ore producer on a world scale, with the potential to produce up to 9.5 mtpa of hematite by 2009.

The company will hold three high quality hematite projects in Western Australia: Tallering Peak (Mount Gibson – in production), Extension Hill (Mount Gibson – near-term production) and Koolan Island (Aztec – near-term production). This represents an exceptional asset base of high-quality operations with improved earnings diversification.

Key benefits of the merger include:

- improved balance sheet strength with significant cash flows;
- diversification of asset risk, with the combination of current cash-generative operations, near-term expansion and development projects as well as a strong longer term project pipeline;
- increased market capitalisation, placing the merged company in the S&P ASX 200, bringing improved liquidity and market presence;
- economies of scale delivering synergies in terms of cost benefits; and
- consolidated exploration activities and land holdings.

Importantly, as the offer consideration comprises Mount Gibson shares, Aztec shareholders will own approximately 45%² of the merged group and will participate in the significant ongoing benefits that Mount Gibson believes will arise from the combination of the two companies.

The Directors of Mount Gibson believe that the merger has the potential to bring together companies with common philosophies, strong international and Australian shareholders and joint venture partners, highly credentialed management teams and a greatly increased range of growth opportunities. Further, the merged company will be in a strong position to lead any further consolidation of the sector.

² Based on fully diluted issued capital of Aztec and Mount Gibson

BOARD AND MANAGEMENT

The merger would combine the management and board expertise of the two companies. Mount Gibson holds the management team in high regard and would welcome their continued involvement, including that of both Mr Ian Burston, Chairman and Mr Peter Bilbe, MD in the merged group. Mount Gibson's CEO, Mr Luke Tonkin, will assume the role of Managing Director, Mr Alan Rule will continue as Finance Director of the merged group.

Commenting on the merger, Mount Gibson's Managing Director, Mr Luke Tonkin, said "We believe that, given current developments in the Australian resource sector, the global market for iron ore, and our respective asset portfolios, this merger has the potential to unlock significant value for the shareholders of both companies.

He added, "The combined company would be well positioned to take advantage of the strong demand for iron ore and position itself for further growth through its strong resource base, new project pipeline, exploration success, and further consolidation."

John Byrne, Managing Director of Cambrian, commended the proposed merger saying "We believe that the strategic fit and shared interests of the companies create a compelling rationale for this transaction. The combined management and assets of Aztec and Mount Gibson create a platform for growth and potential to add value to all shareholders."

BIDDER'S STATEMENT

Further information concerning Mount Gibson's takeover offer for Aztec will be contained in Mount Gibson's Bidder Statement which will be served on Aztec and lodged within the ASX and ASIC as soon as is practicable.

SHAREHOLDER INFORMATION

Further information on the takeover offer will be lodged with the ASX and included on Mount Gibson's website at www.mtgibsoniron.com.au. Aztec and Mount Gibson shareholders with questions on the acquisition proposal should contact the Mount Gibson Offer Information Line on 1300 307 543 from within Australia or +61-3-9415-4335 from outside Australia, between 9.00 am and 7.00 pm (AEST time) Monday to Friday.

Citigroup and Morgan Stanley are acting as financial advisors and Freehills is acting as legal advisor to Mount Gibson.

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ABOUT MOUNT GIBSON IRON LIMITED

Mount Gibson was established as a specialist iron ore exploration company in 1996 and listed on the Australian Stock Exchange in January 2002. To undertake the progressive development of iron ore hematite deposits in the Midwest region of Western Australia, Mount Gibson's first mine at Tallering Peak commenced exporting direct shipping grade hematite to China in February 2004 and is currently expanding its direct shipping grade hematite operations to 3.0 Mtpa.

The Company has recently entered into agreement to sell its 73% shareholding in Asia Iron Holdings Limited, for A\$52.5 million. The funds will be held in escrow until EPA approval for the Extension Hill magnetite project which is expected by December 2006. The funds from this sale will be used in the development of Mount Gibson's Extension Hill DSO hematite project.

Further information is available on Mount Gibson from its website: www.mtgibsoniron.com.au

ABOUT AZTEC RESOURCES LIMITED

Aztec is the owner of the Koolan Island high quality iron ore project which has a resource of 53 million tonnes. In August 2005, Aztec announced the successful completion of a Bankable Feasibility Study. Capital costs of A\$125 million, inclusive of mine development costs support a forecast annual production of approximately 4 Mtpa. Memoranda of Understanding account for total sales of 4 Mtpa, for the current mine life of nine years with ongoing exploration drilling expected to provide potential upside for the project.

In 2000, Aztec was granted an exploration lease of the previously BHP-owned and operated Koolan Island project, located 130 kilometres north of Derby off the West Australian Kimberley coast. Koolan Island has remnant resources and previously produced 68 million tonnes of high grade (Fe @ 67%) and low impurity iron ore.

Further information is available on Aztec from its website: www.aztecresources.com.au

Annexure A – Summary of conditions to the Offer

(a) Minimum acceptance

At the end of the Offer Period, Mount Gibson has relevant interests in at least 90% of the Aztec Shares (on a fully diluted basis).

(b) Other regulatory approvals

Before the end of the Offer Period, all approvals or consents that are required by law, or by any Public Authority, as are necessary to permit:

- (1) the Offer to be lawfully made to and accepted by Aztec shareholders; and
- (2) the transactions contemplated by the Bidder's Statement to be completed (including, without limitation, full, lawful and effectual implementation of the intentions set out in the Bidder's Statement),

are granted, given, made or obtained on an unconditional basis, remain in full force and effect in all respects, and do not become subject to any notice, intimation or indication of intention to revoke, suspend, restrict, modify or not renew the same.

(c) Foreign Investment Review Board approval

One of the following occurring:

- (1) the Treasurer of the Commonwealth of Australia (**Treasurer**) advising Mount Gibson before the end of the Offer Period to the effect that there are no objections to the Takeover Bid constituted by the dispatch of the Offer in terms of the Federal Government's foreign investment policy; or
- (2) no order being made in relation to the Takeover Bid constituted by the dispatch of the Offer under section 22 of the Foreign Acquisitions and Takeovers Act 1975 (Cth) within a period of 40 days after Mount Gibson has notified the Treasurer that it proposes to acquire the Aztec Shares under that Takeover Bid, and no notice being given by the Treasurer to Mount Gibson during that period to the effect that there are any such objections; or
- (3) where an order is made under section 22 of the Foreign Acquisitions and Takeovers Act 1975 (Cth), a period of 90 days having expired after the order comes into operation and no notice having been given by the Treasurer to Mount Gibson during that period to the effect that there are any such objections.

(d) No prescribed occurrences

Between the Announcement Date and the date 3 Business Days after the end of the Offer Period (each inclusive), none of the following prescribed occurrences (being the occurrences listed in section 652C of the Corporations Act) happen:

- (1) Aztec converting all or any of the Aztec Shares into a larger or smaller number of shares under section 254H of the Corporations Act;
- (2) Aztec or a subsidiary of Aztec resolving to reduce its share capital in any way;
- (3) Aztec or a subsidiary of Aztec entering into a buyback agreement or resolving to approve the terms of a buyback agreement under section 257C(1) or 257D(1) of the Corporations Act;

- (4) Aztec or a subsidiary of Aztec making an issue of Aztec Shares (other than Aztec Shares issued as a result of the exercise of options into Aztec Shares) or granting an option over the Aztec Shares or agreeing to make such an issue or grant such an option;
- (5) Aztec or a subsidiary of Aztec issuing, or agreeing to issue, convertible notes;
- (6) Aztec or a subsidiary of Aztec disposing or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- (7) Aztec or a subsidiary of Aztec charging, or agreeing to charge, the whole, or a substantial part, of its business or property;
- (8) Aztec or a subsidiary of Aztec resolving that it be wound up;
- (9) the appointment of a liquidator or provisional liquidator of Aztec or of a subsidiary of Aztec;
- (10) the making of an order by a court for the winding up of Aztec or of a subsidiary of Aztec;
- (11) an administrator of Aztec or of a subsidiary of Aztec being appointed under section 436A, 436B or 436C of the Corporations Act;
- (12) Aztec or a subsidiary of Aztec executing a deed of company arrangement;
- (13) the appointment of a receiver, receiver and manager, other controller (as defined in the Corporations Act) or similar official in relation to the whole, or a substantial part, of the property of Aztec or of a subsidiary of Aztec.

(e) **No regulatory action**

Between the Announcement Date and the end of the Offer Period (each inclusive):

- (1) there is not in effect any preliminary or final decision, order or decree issued by any Public Authority;
- (2) no action or investigation is announced, commenced or threatened by any Public Authority; and
- (3) no application is made to any Public Authority (other than by Mount Gibson or any associate of Mount Gibson),

in consequence of or in connection with the Offer (other than an application to, or a decision or order of, ASIC or the Takeovers Panel in exercise of the powers and discretions conferred by the Corporations Act) which restrains, prohibits or impedes, or threatens to restrain, prohibit or impede, or materially impact upon, the making of the Offers or which requires the divestiture by Mount Gibson of any Aztec Shares or any material assets of Aztec or any subsidiary of Aztec.

(f) **Acquisitions and disposals**

Between the Announcement Date and the end of the Offer Period (each inclusive), neither Aztec nor any of its subsidiaries, acquires or disposes of, or enters into or announces any agreement for the acquisition or disposal of, any asset or business, or enters into any corporate transaction, which would or would be likely to involve a material change in:

- (1) the manner in which Aztec conducts its business;
- (2) the nature (including balance sheet classification), extent or value of the assets of Aztec; or
- (3) the nature (including balance sheet classification), extent or value of the liabilities of Aztec,

including, without limitation, any transaction which would or (subject to one or more conditions) may involve:

- (4) Aztec or any subsidiary of Aztec entering into, offering to enter into or announcing that it proposes to enter into any partnership or joint venture involving a commitment of greater than \$5 million or making an announcement in relation to such a commitment;
- (5) Aztec or any subsidiary of Aztec acquiring, or agreeing to acquire, one or more companies, businesses or assets for an amount in aggregate greater than \$5 million; or
- (6) Aztec or any subsidiary of Aztec disposing, or agreeing to dispose of, one or more companies, businesses or assets (or any interest therein) for an amount in aggregate greater than \$5 million;

(g) **No persons entitled to exercise or exercising rights under certain agreements or instruments**

Between the Announcement Date and the end of the Offer Period (each inclusive), there is no person entitled to exercise, exercising or purporting to exercise, stating an intention to exercise (whether or not that intention is stated to be a final or determined decision of that person), or asserting a right to exercise, any rights under any provision of any agreement or other instrument to which Aztec or any Aztec subsidiary is a party, or by or to which Aztec or any Aztec subsidiary or any of its assets or businesses may be bound or be subject, which results, or could result, to an extent to which is material in the context of Aztec Group taken as a whole, in:

- (1) any moneys borrowed by Aztec or any Aztec subsidiary being or becoming repayable or being capable of being declared repayable immediately or earlier than the repayment date stated in such agreement or other instrument; or
- (2) any such agreement or other such instrument being terminated or modified or any action being taken or arising thereunder;
- (3) the interest of Aztec or any Aztec subsidiary in any firm, joint venture, trust corporation or other entity (or any arrangements relating to such interest) being terminated or modified;
- (4) the assets of Aztec or any Aztec subsidiary being sold transferred or offered for sale or transfer, including under any pre-emptive rights or similar provisions; or
- (5) the business of Aztec or any Aztec subsidiary with any other person being adversely affected.

(h) **No material adverse change**

Between the Announcement Date and the end of the Offer Period (each inclusive), no material adverse change occurs to, is announced, or is made known to Mount Gibson (whether or not becoming public), in the business, financial or trading position, assets or liabilities, profitability or prospects of Aztec and its subsidiaries taken as a whole, from that as at the Announcement Date.

(i) **No litigation on foot or pending**

Between the Announcement Date and the end of the Offer Period (each inclusive), no litigation against Aztec which may reasonably result in a judgement of \$5 million or more is commenced, is threatened to be commenced, is announced, or is made known to Mount Gibson (whether or not becoming public) or Aztec, other than that which is in the public domain as at the Announcement Date.

(j) **Index out**

Between the Announcement Date and the end of the Offer Period (each inclusive), the S&P ASX 200 does not close below 4500 for 5 or more consecutive trading days.

(k) **Mount Gibson share price floor**

Between the Announcement Date and the date of the Offer (each inclusive), the shares of Mount Gibson do not trade below \$0.71 on ASX at any time on any trading day.

Definitions

Term	Meaning
ASIC	Australian Securities and Investments Commission.
Announcement Date	24 July 2006
Aztec Share	an ordinary share in the capital of Aztec.
Aztec Shareholder	a holder of Aztec Shares.
Bidder's Statement	a bidder's statement in respect of the Takeover Bid.
Business Day	a day on which the banks are open for business in Perth excluding a Saturday, Sunday or public holiday.
Corporations Act	the Corporations Act 2001 (Cth).
Government Agency	any government or governmental, semi-governmental, administrative, monetary, fiscal or statutory or judicial body, department, commission, authority, tribunal, agency or entity in any part of the world.
Offer	the off market takeover bid constituted by each Offer to be made by Mount Gibson for Aztec Shares.
Offer Period	the period that the Offer is open for acceptance.
Public Authority	any Government Agency (but excluding the Takeovers Panel, ASIC and any court that hears or determines proceedings under section 657G or proceedings commenced by a person specified in section 659B of the Corporations Act in relation to the Takeover Bid). It also includes any self-regulatory organisation established under statute or any stock exchange.
Takeovers Panel	The Takeovers Panel established by section 171 of the Australian Securities and Investments Commission Act 2001.

Annexure B –Call Option Agreement

Mount Gibson has entered into a call option agreement for nominal consideration with Cambrian Mining plc (“Cambrian”), under which Cambrian granted Mount Gibson an option to acquire 159,031,922 Aztec shares, representing approximately 19.9% of the total fully paid ordinary shares of Aztec currently on issue.

If the option is exercised, Mount Gibson will issue to Cambrian one new Mount Gibson share for every three Aztec shares the subject of the option.

The option can be exercised at any time within the period

1. of 14 days commencing on the date that is 14 days after the commencement of the offer period; or
2. if before the close of the Mount Gibson offer, another party announces a rival offer, within a period of 14 days after the date of announcement

The option lapses if Mount Gibson fails to lodge a bidders statement with Aztec within 28 days of the date of this announcement or, if prior to completion under the option, Cambrian accepts the Mount Gibson offer for the option shares.