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Australian Stock Exchange Code: AZR

26 October 2006

Narissa Taylor  
Advisor, Issuers  
Australian Stock Exchange Limited  
Level 8, Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

**By Facsimile: +61 8 9221 2020**

Dear Narissa

**Aztec Resources Limited (the Company)**

We refer to your letter dated 25 October 2006, which raised several questions in relation to the announcement made by the Company on 19 October 2006 (**Announcement**), and your subsequent telephone conversations with Geoff Clifford of the Company.

The Announcement advised, among other things, that Australian Royalties Corporation Pty Ltd (**ARC**) had lodged caveats over the Company's Koolan Island mining tenements for the purpose of securing its royalty interest.

We respond to your questions as follows:

1. ***Did the Company become aware of the lodgement of a caveat over the Koolan Island mining tenements by ARC prior to its announcement on 19 October 2006?***

Yes. The Company first became aware of the lodgement of caveats over its Koolan Island mining tenements on 5 October 2006.

The caveats related to ARC's rights under the royalty arrangements between the Company and ARC (**Royalty Arrangements**). The rights under the Royalty Arrangements were not new – they had previously been the subject of disclosure to the market (for example, in the prospectus dated 8 December 2005 and in the Company's target's statement dated 12 September 2006).

Since the caveats were simply a means of protecting a pre-existing interest which itself had already been disclosed, the Company did not consider it necessary to make any market announcement on becoming aware of the caveats.



Following notification of the lodgement of the caveats, the Company liaised with the syndicate of banks with which it had been negotiating (**Banking Syndicate**) with respect to the tripartite arrangements that would be required between ARC, the security trustee (acting on behalf of the Banking Syndicate), the Company and Koolan Iron Ore Pty Ltd. A tripartite agreement is typically required in transactions of this nature. Counterparties to all the material project documents have been requested to enter into such an agreement.

To this end, the legal adviser acting for the Banking Syndicate prepared a draft tripartite agreement which was the subject of negotiation. Ultimately a further draft was presented to ARC that preserved ARC's existing rights under the Royalty Arrangements in a manner that was acceptable to the Banking Syndicate. This document was one of a suite of financing documents that was being prepared and negotiated between the relevant parties.

Aztec believed that the tripartite agreement would be acceptable to ARC and in consequence, the Royalty Arrangements would not adversely affect credit approval from the Banking Syndicate.

On 17 October 2006, ARC indicated a strong preference for an outright purchase of the royalty. During the course of that day, negotiations continued on the best way forward for all parties. At this stage it remained a possibility that the tripartite agreement would be executed.

During the course of 18 October 2006, it became clear to the Company that ARC was focussed solely on a sale of the royalty which was a course of action likely to be favoured by the Banking Syndicate given that it would result in a complete extinguishment of the Royalty Arrangements.

Accordingly, in light of that position and the Company's desire to finalise the credit approval process without further delay, the Company requested a trading halt to give it time to deal with ARC's interest. The Company also made the Announcement to keep the market fully informed. The trading halt came into effect prior to commencement of trading on 19 October 2006.

The result of the further negotiations was announced to the market when they were concluded on 24 October 2006.

**2. *Does the Company consider that the Contract is material to the Company? Please provide the reasons for your response.***

No. We understand from you that the reference to the "Contract" is intended to be a reference to the caveats. For the reasons set out above, the lodgement of the caveats was not considered to be material (and thus require separate disclosure to the market) given that they were simply a means of protecting a pre-existing interest which itself had already been disclosed.

**3. *If the answer to question 1 is "yes" please advise the following.***

**3.1 *Why did the Company not make an announcement to ASX immediately upon becoming aware of the ARC caveat?***

Not applicable for the reasons set out above.



**3.2 If the Company was not in a position to make an announcement immediately it became aware of the ARC caveat, why did it not request a trading halt?**

Not applicable for the reasons set out above.

**4. Please confirm that the Company is in compliance with listing rule 3.1**

We confirm that the Company is in compliance with its obligations under listing rule 3.1.

Please do not hesitate to contact me if you have any further questions.

Yours sincerely

Peter Bilbe  
**Managing Director**



# ASX

AUSTRALIAN STOCK EXCHANGE

25 October 2006

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Director  
Aztec Resources Limited  
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Facsimile 61 (08) 9221 2020  
Internet <http://www.asx.com.au>

By facsimile: 9423 0801

Dear Geoff

## Aztec Resources Limited (the "Company")

ASX refers to the ASX Announcement made by the Company at 5.21 pm (A.E.S.T.) on 19 October 2006 (the "Announcement") advising that Australian Royalties Corp ("ARC") had lodged caveats over the Koolan Island mining tenements for the purpose of securing their royalty interest.

We wish to draw your attention to the definition of "aware" in chapter 19 of the listing rules which states that:

*"an entity becomes aware of information if a director or executive director (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity"*

Further, we wish to draw your attention to listing rule 3.1 which requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in listing rule 3.1A.

Having regard to the Announcement, the above definition, listing rule 3.1 and Guidance Note 8 - Continuous Disclosure, we ask that you answer the following questions in a format suitable for release to the market in accordance with listing rule 18.7A.

1. Did the Company become aware of the lodgement of a caveat over the Koolan Island mining tenements by ARC prior to its announcement on 19 October 2006?
2. Does the Company consider that the Contract is material to the Company? Please provide the reasons for your response.
3. If the answer to question 1 is "yes" please advise the following.

3.1 Why did the Company not make an announcement to ASX immediately upon becoming aware of the ARC caveat?

3.2 If the Company was not in a position to make an announcement immediately it became aware of the ARC caveat, why did it not request a trading halt?

4. Please confirm that the Company is in compliance with listing rule 3.1.

If the above information is required to be disclosed under listing rule 3.1, your obligation is to disclose the information immediately. Otherwise, your co-operation in lodging a response to the abovementioned questions in a format suitable for release to the market would be appreciated before 10.00 am W.S.T on Thursday, 26 October 2006.

Your response should be sent directly to me on facsimile number (08) 9221 2020 or by email at [narissa.taylor@asx.com.au](mailto:narissa.taylor@asx.com.au). Your response should not be sent to the Company Announcements Office.

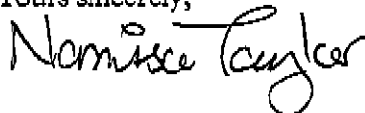
Should the Company be reinstated to official quotation today, and if you are unable to respond by the time requested, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 - Trading Halts, we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell each of the following.

- The reasons for the trading halt.
- How long you want the trading halt to last.
- The event you expect to happen that will end the trading halt.
- That you are not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt, or that we may ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before 10.00 am WST on Thursday, 26 October 2006, suspension from quotation would normally be imposed by us from the commencement of trading if not previously requested by you. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

Should you have any queries or concerns, please contact me immediately on (08) 9224 0023.

Yours sincerely,



Narissa Taylor  
Adviser, Issuers (Perth)

Direct Line: (08) 9224 0023

cc Mr Roger Davies  
Blake Dawson Waldron  
By facsimile: 9366 8111