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31 October 2006

September 2006 Quarterly Report on Activities

Highlights

The September 2006 Quarter has been a very positive period for Aztec shareholders and the company's plans to be Australia's next iron ore miner. Importantly, Aztec is now well positioned to complete construction of the Koolan Island Iron Ore Project on schedule and first iron ore shipment in early 2007.

Key achievements for the September 2006 Quarter and in the period subsequent include:

- Aztec directors continue to recommend that Aztec shareholders reject the inadequate offer from Mount Gibson
- \$100 million debt finance facility approved
- Finance facility for mobile mining fleet established with the first drawdown completed
- Exercise of July 2006 listed options raised \$42.3 million
- Termination of royalty and repurchase rights held by Australian Royalties Corporation for consideration of 77.8 million Aztec shares
- Long term sales contracts for 2.5 million tonnes of iron ore per annum successfully concluded
- Project construction and mine development on track for commencement of mining in December 2006 and first ore shipment in early 2007
- Positive exploration results with potential to extend the mine life

Corporate

Mount Gibson Takeover Offer

On 26 October 2006, Mount Gibson Iron Limited ("MGX") declared its Takeover Offer ("Offer") for Aztec unconditional. The Offer, which remains unchanged from the original offer of one MGX share for every three Aztec shares, is now scheduled to close on Friday 3 November 2006.

Aztec directors continue to recommend that Aztec shareholders **REJECT** the inadequate offer from MGX.

Having received credit approval for the \$100 million bank finance facility and in light of other recent significant achievements outlined above, the Company is now positioned to complete the development of the Koolan Island Project and commence operations on schedule. Therefore, Aztec directors believe that *the Company is better placed to achieve its initial objective of developing and operating the Koolan Project than at any time in its history* and is certainly better placed than it was when MGX launched its unsolicited takeover bid for Aztec on 24 July 2006.

MGX's offer on 24 July 2006 was opportunistic and inadequate in the opinion of Aztec directors and now that the project is fully funded and well advanced, the now unconditional but unchanged offer of one MGX share for every three Aztec shares continues to remain inadequate.

Project Funding

- ***A\$100 million Debt Finance Facility***

On 26 October 2006, Aztec announced that credit approval had been received from its banking syndicate in respect to a A\$100 million debt facility established to meet the balance of development expenditure commitments and ongoing working capital requirements for the Koolan Island Iron Ore Project.

The banking syndicate comprises the following three banks:

- Westpac Banking Corporation;
- Bank of Scotland International (Australia) Ltd; and
- Bank of Tokyo – Mitsubishi UFJ Ltd

The A\$100 million debt facility consists of:

- a senior debt facility of A\$54 million (to be drawn down in US dollars);
- a cost overrun facility of A\$10 million (to be drawn down in US dollars);
- a working capital facility of A\$30 million; and
- an environmental bond facility of A\$6 million.

Drawdown of the first tranche of the senior debt facility (approximately A\$20 million) is expected to occur today with the remaining facilities made available for drawdown when a condition subsequent relating to the final environmental approval has been met. This approval is expected to be obtained within the next two weeks.

- ***Mobile Mining Fleet Finance Lease Facility***

On 29 September 2006, Aztec announced the signing of a \$65 million finance lease facility with Komatsu Australia Corporate Finance Pty Limited to provide funding for the Komatsu mobile mining fleet.

Drawdowns under this lease facility are in two tranches. The drawdown of the first tranche of \$13 million has been completed. The second tranche of the lease facility for \$52 million for the haul trucks and PC3000 excavators is conditional on the drawdown of the first tranche of the bank finance facility which will occur today. Delivery of the haul trucks and excavators is scheduled to commence in November 2006.

- ***31 July 2006 Listed Options Raised \$42.3 million***

On 8 August 2006, the directors were pleased to announce that 99.4% of optionholders exercised their listed 31 July 2006 options leaving only a shortfall of approximately 1.5 million shares to be taken up by the underwriter.

The \$42.3 million raised by the exercising of these 17 cent options was the second and final tranche of equity capital raised for the construction and development of the Koolan Island Iron Ore Project. Total equity capital (net of costs) raised for this project equates to \$80 million.

Termination of Royalty and Repurchase Rights

On 24 October 2006 Aztec announced the signing of a Deed of Settlement and Release ("Agreement") terminating all royalty and repurchase rights held by Australian Royalties Corporation Pty Limited ("ARC"), the original vendor of 30% of the Koolan Island iron ore tenements.

Under the Agreement:

- ARC and Aztec have terminated the royalty and repurchase arrangements. As a result, ARC is no longer entitled to amongst other things:
 - The royalty of A\$1 per tonne for every tonne of iron ore sold from the Project (that would have been previously payable to ARC);
 - The option for ARC to repurchase its original 30% interest in the Koolan Island tenements for a nominal sum if production has not commenced from those tenements by 15 June 2007;
- Aztec has issued 77,777,778 fully paid ordinary shares in Aztec to ARC at a price of \$0.225 per share (equivalent to Aztec's one month Volume Weighted Average Price to 18 October 2006).

The issue of shares to ARC represents total consideration of \$17.5 million for the royalty and associated rights. This represents a substantial saving to the undiscounted value of the royalty which would have been \$29.1 million over the life of the mine based on the planned mining schedule of 29.1 million tonnes. Aztec no longer has to make any additional payments to ARC arising from any upside potential from Aztec's exploration activities.

In the opinion of the Directors, this Agreement was an excellent outcome for Aztec shareholders.

Marketing

During the quarter, Aztec concluded long term sales contracts with CITIC Australia for 1.5 million tonnes of iron ore per annum and with Marubeni Corporation for 1.0 million tonnes per annum. The Company is now well positioned to conclude additional sales contracts in the near future to cover the balance of the planned annual production of four million tonnes.

Environment & Project Approvals

During the quarter a number of key project approvals were obtained from relevant Government agencies allowing land clearing, construction of the village, construction of project infrastructure and mining above the water table to commence. Further approvals for the construction of the seawall, dewatering of the main pit and mining below the water table are still required and good progress has been made in drafting these submissions.

Assessment by the Department of the Environment and Heritage (DEH) under the Environment Protection and Biodiversity Conservation Act 1999 with respect to management of the Northern Quoll is well advanced. Approval by the DEH is expected within the next two weeks.

Native Title

Following the execution of the Co-Existence Deed in April 2006, the parties to the agreement (Aztec, the traditional owners (the Dambimangari) and the Kimberley Land Council (KLC)) are now well advanced in the development of a series of training programs with the objective of maximising the employment opportunities for the indigenous people in the Derby region. The centre piece of this funding commitment by Aztec is the development of a 'job ready program' by the Kimberley College of TAFE that will provide local indigenous people with the skills required for them to seek employment in the local industries, with particular reference to the mining sector. The first program will be completed in early 2007, with the aim of enabling successful students to seek employment on Koolan Island during the build-up to full-scale operations.

A Cultural Awareness course to be presented to all employees working on Koolan Island is also being developed.

The appointment of two Rangers for the island is well advanced and these individuals should take up their roles within the next month.

Project Development

Construction

Construction activities are progressing well with the following completion status at the end of the quarter:

- Piling of the jetty is more than 75% complete. Pile cutting and deck structure installation has commenced.
- The access road to the jetty is 95% complete. The first of three lifts of the rock causeway (connecting the jetty to the island) is also complete.
- Erection of the crushing station structure and mechanical installation of feeder, primary and secondary crushers is well advanced. Steelwork for the screen house is progressing well and major items of equipment, including the banana screen, have been delivered to site. Construction of the plant remains on schedule at 45% complete.
- Construction of the crusher pad and associated stockpile areas is complete.

- Road widening on the major access routes across the island is underway.
- Erection of the laboratory structures is complete and equipment is currently being placed and commissioned in the building.
- 80% of the accommodation units are now in place in the new village with some of these units already being inhabited. The core facility buildings (kitchen, etc) are due to be installed in November.
- Water bores have been drilled for the new village and infrastructure areas.

Commissioning of the process plant is still on schedule to commence at the end of 2006 and commissioning of the shiploader and the first ore shipment are planned for early 2007.

Mine Development

Development of access roads commenced during the quarter. Delivery of temporary mining equipment has been completed and the first of the larger (permanent) hydraulic excavators and trucks is scheduled for delivery to the island in November 2006.

Mining and stockpiling of ore from Eastern and Mullet pits is on track to commence in December 2006.

Exploration

In early July, the current exploration and infill drilling programme commenced. To date 7,247m of RC drilling has been completed in 78 holes.

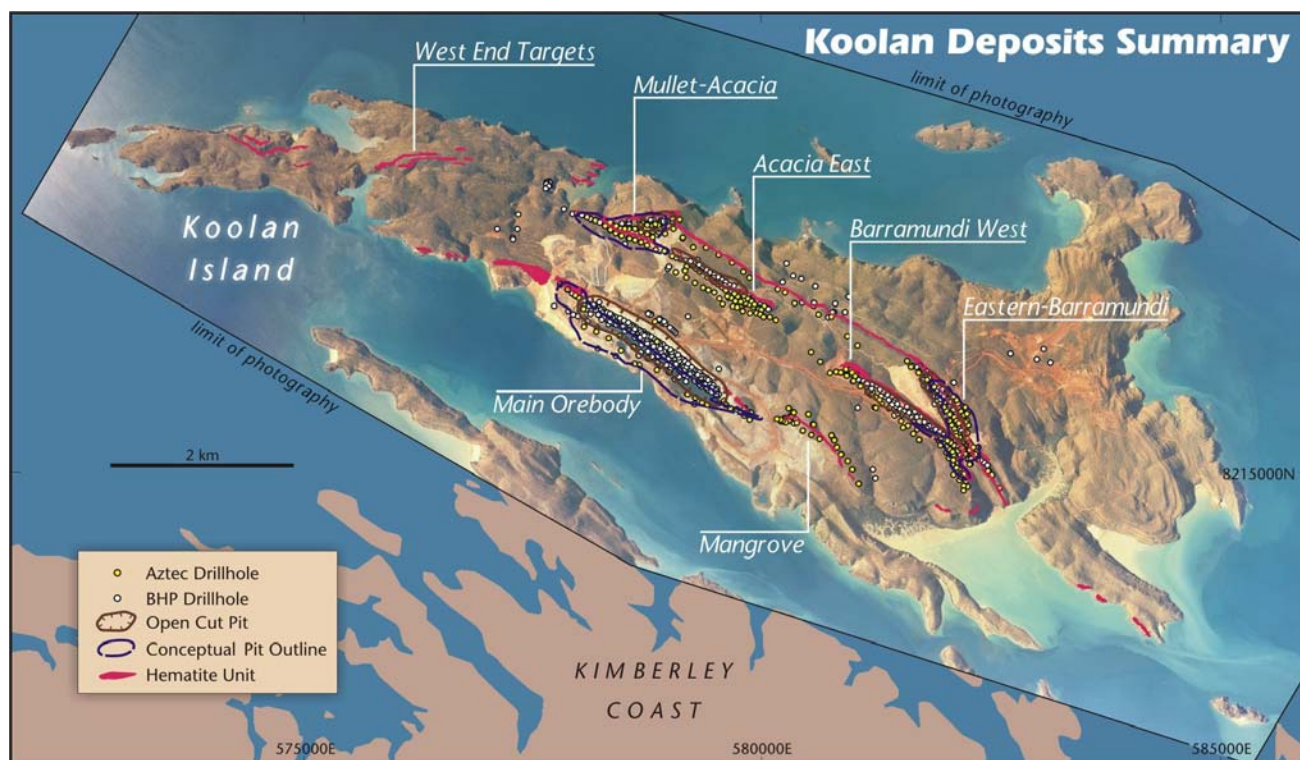
The main objective of Aztec's current exploration programme is to extend the mine life of the Koolan Island Project by targeting new iron ore resources in addition to extending and further defining known resources. The programme includes:

- Evaluating the extent and potential of the Mangrove prospect;
- Exploring for extensions to the hematite mineralisation adjacent to the current planned pits at Eastern, Main and Mullet deposits; and
- Evaluating the outcropping and undercover extensions to the previously mined Barramundi and Acacia deposits.

In addition, some definition drilling has been completed within the Eastern deposit to enhance selective mining opportunities.

The deposit and prospect locations are displayed on Figure 1.

Figure 1: Koolan Island Deposit Summary



Work during the quarter has focussed on six areas: Mangrove, Eastern – Barramundi, Barramundi South, Barramundi West, Mullet – Acacia and Main West.

Mangrove Prospect

Twenty four new RC drill holes have been completed within an 850m long section of the Mangrove Prospect during this programme. Drilling to date has intersected hematite mineralisation over a 750m strike length in the northwest section of the 2km long, sub-vertical, partially outcropping hematite bearing Mangrove structure.

Drill results and plan/section maps were released by Aztec on 8 September 2006.

These holes have confirmed the potential of the prospect and further drilling is continuing to define the mineralisation for resource and reserve estimation.

Eastern – Barramundi Deposit

A total of 12 infill drilling and peripheral exploration drill holes were completed at the deposit. Highlights of the drilling included the two holes summarised in Table 1 and described below:

- An exploration hole outside of the northwest limit of the planned Eastern – Barramundi pit contained hematite mineralisation close to surface in hole RC340.
- Within the planned pit, hole RC229 was drilled to infill an area of widely spaced drill holes. This hole confirmed the grade and extent of the ore reserve estimation within the pit and indicates consistent mineralisation extending below the pit. The hole was terminated in high grade hematite mineralisation due to drilling difficulties.

Table 1: Mineralised intercepts from the two highlighted drill holes completed in the recent drilling at Eastern – Barramundi.

HoleID	Dip	From (m)	To (m)	Width (m)	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%
RC340	-60°	4	22	18	62.3	6.4	2.5	0.04
RC229	-60°	138	153	15	62.1	9.1	1.2	0.05
		160	171	11	62.8	9.6	0.3	0.02
		173	227	54	63.7	6.2	1.7	0.03

Intercepts are calculated at >4m of >55% Fe cut-off.

The drilling both supports the integrity of the existing ore reserves and indicates potential for the planned pit to be expanded.

Barramundi West

The Barramundi West deposit is the north-western extension to the hematite ore previously mined in the Barramundi pit. At the western end of the mined pit, outcropping hematite mineralisation occurs and dips moderately to the south beneath waste dumps and sandstone. Recently eight holes were completed at Barramundi West. These holes, in addition to the previously drilled Aztec and BHP holes are being used to complete a geological model and resource estimation. Assays for the recently completed drilling are awaited.

Barramundi South

This area has been targeted to determine the viability of mining the moderately dipping southern extension of the previously mined Barramundi Deposit. A total of 5 new holes have been drilled along the south side of the pit. These holes, in addition to those previously drilled by Aztec and BHP, are currently being used to complete a geological model. The two better holes from the recent drilling are outlined in Table 2.

Table 2: Mineralised intercepts from the two better drill holes completed in the recent drilling at Barramundi South.

HoleID	Dip	From (m)	To (m)	Width (m)	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%
RC325	-60°	28	33	5	62.6	9.1	0.8	0.02
RC226	-60°	27	34	7	61.9	7.0	2.3	0.03

Intercepts are calculated at >4m of >55% Fe cut-off.

Mullet – Acacia Deposit

The drilling at this deposit is aimed at extending the mineral resource to the south and west of the current open pit plan. Drill holes have been completed along the shallow, south-westerly dipping, southern limb of the Mullet - Acacia anticline where potential for locating additional resources exists. To the west of the exposed mineralisation, the shallow, westerly dipping nose of the hematite bearing fold structure was tested beneath cover. In total 20 holes have been drilled within the Mullet - Acacia area. Assay results are awaited.

Main West

A total of nine holes have been drilled in the western end of the Main Deposit to gain a greater understanding of the near surface extensions. Zones of hematite-rich mineralisation were intersected. Assay results are awaited. Plans are underway to test the substantial hematite-rich outcrop in this area.

Down-hole density and survey measurements are planned to commence in October on several of the areas. Geological modelling has commenced for the drilled areas to enable mineral resource estimation upon receipt of all assays.

Attribution

The information in this report that relates to exploration results is based on information compiled by Alexander Moyle who is a full time employee of the Company. Alexander Moyle is a Member of the Australian Institute of Geoscientists and a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Alexander Moyle consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Takeover Update

Directors will keep shareholders informed of developments related to Mount Gibson's opportunistic takeover offer as they arise and encourage shareholders, should they have any questions, to call the Aztec Shareholder Information Line on 1800 602 244 (Australian callers) or +61 8 6218 4220 (International callers).

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

AZTEC RESOURCES LIMITED

ABN

45 078 548 562

Quarter ended ("current quarter")

30 September 2006

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date \$A'000
1.1	Receipts from product sales and related debtors	11	11
1.2	Payments for		
	(a) exploration and evaluation	(436)	(436)
	(b) development – includes progress payments for some capex items	(30,741)	(30,741)
	(c) production	-	-
	(d) administration	(1,424)	(1,424)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	419	419
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other	-	-
	Net Operating Cash Flows	(32,171)	(32,171)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(8,585)	(8,585)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material) Bonds	(1,227)	(1,227)
	Net investing cash flows		
1.13	Total operating and investing cash flows (carried forward)	(9,812)	(9,812)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(9,812)	(9,812)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	42,179	42,179
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Costs associated with issue of shares	(1,892)	(1,892)
	Net financing cash flows	40,287	40,287
	Net increase (decrease) in cash held	(1,696)	(1,696)
1.20	Cash at beginning of quarter/year to date	16,962	16,962
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	15,266	15,266

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2(d) and 1.7, for the quarter.	\$252
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 **Explanation necessary for an understanding of the transactions**

This includes Directors' fees, salary and wages and payments made to a related entity (Deacons).

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

There were no non-cash financing and investing activities during the quarter.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	400
4.2 Development	51,515
Total	51,915

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	(2,732)	1,211
5.2 Deposits at call	17,998	15,751
5.3 Bank overdraft	-	-
5.4 Other – Term Deposit	-	2,280
Total: cash at end of quarter (item 1.22)	15,266	19,242

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	-	-	-	-
6.2 Interests in mining tenements acquired or increased	-	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	1,043,351,777	1,043,351,777		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	248,044,283 250,000	248,044,283 -	0.17 cents 0.05 cents	0.17 cents 0.05 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options AZRAI AZRAK AZRAM AZRAO AZRAP AZRAQ AZRAS AZRAU AZRAW	2,000,000 2,000,000 1,000,000 3,900,000 5,000,000 2,900,000 1,000,000 2,250,000 1,450,000	- - - - - - - - -	<i>Exercise Price</i> 5 cents 10 cents 20 cents 20 cents 23 cents 20 cents 20 cents 20 cents 20 cents	<i>Expiry date</i> 30/6/2007 30/6/2007 30/6/2007 25/11/2009 30/6/2007 31/8/2010 30/6/2010 31/3/2011 10/7/2011
7.8 Issued during quarter	1,450,000	-	20 cents	10/7/2011
7.9 Exercised during quarter	250,000	-	5 cents	30/6/2007
7.10 Expired during quarter	150,000*	* Employee Options Cancelled	20 cents	31/3/2011

+ See chapter 19 for defined terms.

7.11	Debentures <i>(totals only)</i>	Nil	
7.12	Unsecured notes <i>(totals only)</i>	Nil	

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Company Secretary

Ian Gregory
31 October 2006

+ See chapter 19 for defined terms.

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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