



## **Mineral Commodities Ltd**

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27 October, 2006

Australian Stock Exchange  
Company Announcements Office

### **QUARTERLY ACTIVITIES REPORT**

#### **FOR THE PERIOD ENDED 30 SEPTEMBER 2006**

#### **HIGHLIGHTS**

- **The President of the Republic of South Africa Thabo Mbeki visits the Pondoland area, the general locality of the Xolobeni Mineral Sands project, meeting with community leaders and stakeholders on 29 September 2006.**
- **Tormin Mineral Sands project optimised feasibility study completed and under review. Economic outcomes pending.**
- **Mining Right Applications together with completion of Black Economic Empowerment transactions for both the Tormin and Xolobeni projects due to be submitted in the next 3-6 months.**
- **280 Diamonds recovered for 84.03 carats from initial pilot plant sampling at Oversize Tailings Dump No.11 operations in Sierra Leone.**
- **The 80 tonne per hour Diamond Pan Plant has been fabricated and tested ex-works in South Africa and despatched to Freetown, Sierra Leone. Pre site earthworks and infrastructure have been completed and a mobilisation and erection team has arrived on site.**

#### **SIERRA LEONE DIAMOND OPERATIONS UPDATE**

The Company's principal activity for the quarter through its 100% wholly owned Sierra Leone subsidiary, Kariba Kono (SL) Ltd, has been diamond tailings dump re-treatment, diamond mining and mineral exploration in Sierra Leone. Kariba Kono's principal asset is the No. 11 Oversize Tailings Dump at Koidu.

The No.11 tailings dump resulted from alluvial diamond operations in the 1960's by the Sierra Leone Diamond Trust ("SLDT"). Although the plant was advanced for its time, investigation into the operating history of the plant after the fortuitous discovery of the 969.8 carat "Star of Sierra Leone" diamond indicated that the initial plant design was flawed and it is believed the operating efficiency would have reduced with time, leading to the loss of diamonds to tailings.

During the September quarter, ProMet Engineers Africa (Pty) Ltd completed the manufacture, testing ex-works and dispatch of the Diamond Pan Plant into nine 40 foot sea containers by ship to Freetown. The plant includes 1 x 16 foot pan complete with 2 x 16m Scrubber, Recovery, single stage X-Ray Flow Sort and diesel generated power supply plus spares. The plant is designed to treat 80 tonnes per hour, tenfold the current rate achieved from bulk sampling.

Due to rough seas off Cape Town the departure of the ship from port was delayed and the estimated time of arrival (ETA) is now expected to be 28 October 2006 (previously mid to late September).

The plant fabrication came in under budget with a cost saving to MRC of approx ZAR 450,000 (around AUD\$80,000).

During the quarter bulk sampling operations continued under the guidance and management of the ProMet Engineering team. Expatriate housing, communications, infrastructure and earthmoving site works have been established in conjunction with sustainable processing operations in close co-operation and consultation with the Gbense Chiefdom. The Directors are of the view that a successful operation at No 11 Oversize Tailings Dump will enhance the Company's standing in the Chiefdom and could lead to participation in joint ventures with other operators or land owners.

ProMet have extensive experience operating in Sierra Leone and accordingly bring to the project a broad knowledge of local customs and goods and services procurement. The programme of bulk sampling will test the dump as well as selected basal gravels underneath to establish the grade and size analysis.

### **280 DIAMONDS RECOVERED FROM BULK SAMPLING**

During the quarter the Company received encouraging recoveries from its bulk sampling operations from its 8 tonne per hour (tph) jig at the No.11 dump and work will continue until the diamond pan plant and associated equipment is commissioned and operating in the December 06 quarter. As at 26 September 2006, the jig had recovered 280 diamonds for a combined weight of 84.03 cts from an estimated throughput of 4,619 tonnes of material.

### **SMALL CLAIM MINING LEASE NO. 5 ("DUMP NO. 5")**

MRC entered into an agreement with Mohagib Enterprises Limited (Mohagib) and Leonaust Mining Company Limited (Leonaust) to acquire Monagib's 50% interest in Leonaust. Leonaust is the legal and beneficial owner of the Dump No.5 mining area which is located within 1km of Dump No.11. On settlement, Leonaust will become a 100% owned subsidiary of MRC.

Between 1961 and 1963, bulk sampling of the No.5 mining area by the National Diamond Mining Corporation was undertaken with three mining cuts along the east/west axis following approximately the course of the old Koyie River/stream which enters the mining lease from the south west. Approximately 2,500 cubic metres of gravel was mined. Of this volume, records indicate that 1,713 cubic metres of gravel was processed to produce 2,298 carats giving a grade of 1.34 carats / cubic metre. While the Company is not relying on these figures in terms of resources, the Company does take comfort from the reported recoveries.

During the quarter the Company undertook some preliminary pitting to establish the existence of diamond bearing basal gravels for bulk testing at its No.5 Dump Lease as part of its ongoing due diligence program.

The No. 5 site was marked out for sample pit excavation and a budget established to excavate 5 holes, 12m x 9m, to a depth of approximately 12m to expose the gravels. It is estimated that the excavation part of the program will take 15 days and the bulk samples shall be removed by truck to the No 11 jig for processing in batches to establish the occurrence of alluvial diamonds as well as determine the grade and tonnes available for future processing.

Senior consulting geologist, Colin Brown visited Sierra Leone during the quarter to make enquiries as to available land for exploration in Kono, as well as in the highly mineralised Sula Mountains-Tonkolili area for the purpose of establishing prospecting or mining rights and ownership for future expansion of activities especially kimberlite styled mineralisation.

## **PROJECT DEVELOPMENT**

### **Xolobeni Mineral Sands Project (South Africa)**

#### **Prospecting Right**

In October 2005, MRC through its subsidiary TEM was granted a new order prospecting right at Xolobeni which is valid for 5 years. As part of a Prospecting and Socio-Environmental Work Plan a team has commenced work on a comprehensive socio-economic study. Significant progress has been made by the project's environmental consultants GCS (Pty) Ltd during the September quarter. The socio-economic determination draft reports have been completed and will form the basis of the Social and Labour Plan required for the forth coming Mining Right Application.

In line with the planned Environmental Impact Assessment (EIA) work programme, the base line environmental monitoring studies have commenced. This work includes the construction of an automated weather station and dust monitoring systems as well as the start of studies on the flora and fauna, surface water and estuarine ecology.

#### **Xolobeni Black Empowerment and Consultation**

Several community and local government meetings took place during the quarter. The Amadiba community continues to unanimously support the project and has formed a consultative forum supported by the Traditional Leaders, King and Queen of Pondoland as well as local government authorities. The forum is focused on bringing long term sustainable development to the area and the mining proposal forms its key element.

Preparations for the visit to the area by the President of the Republic of South Africa Thabo Mbeki progressed satisfactorily. Project details including the financial and employment models were submitted to the committee who presented to the President on 29 September 2006.

District municipalities remain optimistic about the project and are actively supporting the ongoing studies.

Black Economic Empowerment (BEE) compliance is a pre-condition to obtaining mining right approval under the South African Mineral and Petroleum Resources Development Act and the Charter. MRC Resources (Pty) Ltd remains committed to achievement of BEE compliance in the near-term. With the existing XolCo Bee arrangement in place at project level for Xolobeni and plans still ongoing to complete a corporate BEE transaction, MRC is well positioned to secure mining rights over the Xolobeni project.

### **Tormin Mineral Sands Project (South Africa)**

#### **Prospecting Right Application**

A Prospecting Right Application for the Tormin project was granted in April 2006 for a period of 2 years. The related Environmental Management Plan was also approved enabling the group to commence work on the Prospecting and Socio-Environmental Work Plan.

The Company has an agreement in place with a Western Cape landowner to acquire the existing Old Order Mining Permit area adjacent to the Company's recent New Order prospecting areas. It is planned to consolidate these areas within a single tenement under a new Mining Right Application to be submitted.

The survey of the Steenvas Lease (the old order mining permit area) and MSR Lease for the application has been completed.

All the current agreements with the surrounding land owners, Trans Hex and Steenvas (Pty) Ltd have been amended to satisfy the requirements of the DME and the Minerals and Petroleum Resources Development Act.

The preparation for the Mining Right Application continued this quarter. A key element of the application is the Social and Labour Plan. This is currently being drafted in accordance with the requirements of the Act. The services of the recently retired Group Manager for Mining Rights and Environment of Trans Hex, Dr Philip Schreuder have been used in the preparation and review of all the necessary documentation required for the application.

Specialist studies for the EIA including flora and fauna, beach rehabilitation, cliff stability and archaeology have commenced.

The Company's current programme anticipates a Mining Right Application to be submitted in the December 2006 quarter.

#### **Feasibility Study**

In 2005 Bateman Engineers conducted a feasibility study where pilot processing test work produced high quality zircon (ceramic grade) and Hi Ti product samples from the Tormin material. The Company subsequently commissioned an independent review to be undertaken by South African engineering consultants RSV K'enyuka to further refine efficiencies including investigating the viability of only producing a non-magnetic zircon enriched heavy mineral concentrate which would not require a Mineral Separation Plant (MSP) there-by significantly reducing the capital and operating costs.

The study by RSV K'enyuka is well advanced and incorporates a simplified mining operation supplying feed to a semi mobile wet concentrator. RSV K'Enyuka has conducted several financial studies. Five options were considered, all based on varying product sales prices but at a fixed discount rate of 16%.

The options were;

1. Base Case, new equipment product FOB Saldanha.
2. New equipment bulk product FOT to Namakwa Sands.
3. Used equipment, product FOB to Saldanha.
4. Contract mining, product FOB to Saldanha.
5. Comparison of MSP and Dry Mill construction to produce zircon and Hi Ti with the Base Case non-magnetic option.

It became essential to undertake certain pilot test work on various spiral options. This was undertaken at the Mintek research laboratories in Johannesburg. Using the modified non-magnetic flow sheet design, concentrates were produced for marketing purposes. Analysis of this product was also undertaken. Samples have been dispatched to various potential purchasers.

A mine plan and schedule is currently being prepared in Perth for inclusion into the Mining Right Application. The findings and economic outcomes from the study will be reported after the completion of an internal review.

## **CORPORATE**

### **Investment in Allied Gold Limited (ASX listed : ALD)**

Allied Gold Limited (ALD) is a listed gold exploration company whose principal asset is the Tabar Islands Gold Project in Papua New Guinea. This comprises the Simberi Oxide Gold Project and all exploration property on the Tabar Islands. ALD has completed an Optimised Feasibility Study for of the Simberi Oxide Gold Project, has secured project finance, appointed an EPCM engineer, and commenced a AUD\$80m construction and development programme.

ALD currently has Measured, Indicated and Inferred Resources of 2.344 million ounces of gold at the Simberi Project.

MRC is one of the largest shareholders in ALD and holds a direct interest in 7.15% (approximately 19.4 million shares) of ALD's issued fully paid ordinary shares and 13.98% (approximately 3.1 million options) of its listed options.

The market value of MRC's share and option holdings at 30 September 2006 was \$8.8 million (previous quarter reported \$7.3 million).

## CASH AND MARKETABLE SECURITIES

At 30 September 2006, MRC had \$3.9 million in cash with a further \$9.4 million in marketable securities (ALD and others). In aggregate this represents 12.5 cents per MRC share.

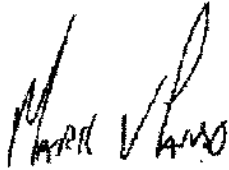
## SECURITIES ON ISSUE

There were 1,350,000 unlisted options exercisable at \$0.35 on or before 11 May 2008 issued to MRC's London based broker Mirabaud Securities during the quarter. These were part of a fee for the placement of 30 million shares at AUD\$0.30 conducted in the June quarter.

Current issued securities comprise;

106,436,002 fully paid ordinary shares  
18,008,607 options expiring 30 June 2007 exercisable at \$0.30  
3,135,626 unlisted options expiring 30 June 2007 exercisable at \$0.40  
1,350,000 unlisted options expiring 11 May 2008 exercisable at \$0.35

Yours faithfully



**Mark Caruso**  
Managing Director

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The information in this report that relates to Exploration Results is based on information compiled by Greg Steemson who is a Fellow of the Australian Institute of Geoscientists. Greg Steemson 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. Greg Steemson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

# 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

**MINERAL COMMODITIES LTD**

ABN

39 008 478 653

Quarter ended

30 September 2006

### Consolidated statement of cash flows

	Current quarter \$'000	Year to date (9 months) \$'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	(165)	(506)
1.3 Dividends received	(202)	(722)
1.4 Interest and other items of a similar nature received	80	123
1.5 Interest and other costs of finance paid	(13)	(13)
1.6 Income taxes paid		
1.7 Other		
<b>Net Operating Cash Flows</b>	<b>(300)</b>	<b>(1,118)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of (a) prospects (b) equity investments (c) investment in associate (d) fixed assets (e) Investments in controlled entities	(399)	(399)
	(161)	(587)
	(676)	(1,643)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	-	129
1.10 Loans to other entities	(1,116)	(1,814)
1.11 Loans repaid by other entities		
1.12 Repayment of term deposits		
<b>Net investing cash flows</b>	<b>(2,352)</b>	<b>(4,314)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,652)</b>	<b>(5,432)</b>

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,652)	(5,432)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	8,437
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other		
	<b>Net financing cash flows</b>	<b>-</b>	<b>8,437</b>
	<b>Net increase (decrease) in cash held</b>	<b>(2,652)</b>	<b>3,005</b>
1.20	Cash at beginning of quarter/year to date	6,594	937
1.21	Exchange rate adjustments to item 1.20	(60)	(60)
1.22	<b>Cash at end of quarter</b>	<b>3,882</b>	<b>3,882</b>

**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 \$'000
1.23	Aggregate amount of payments to the parties included in item 1.2	25
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

\$16,425 is directors' fees for non-executive directors.  
\$8,000 is consulting fees paid to Mr Greg Steemson.

**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

Nil

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

Nil



### Financing facilities available

*Add notes as necessary for an understanding of the position.*

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

### Estimated cash outflows for next quarter

	\$'000
4.1 Exploration and evaluation	584
4.2 Development	660
<b>Total</b>	<b>1,244</b>

### 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 \$'000	Previous quarter \$'000
5.1 Cash on hand and at bank	3,882	594
5.2 Deposits at call	-	6,000
5.3 Bank overdraft	-	-
5.4 Bank Bill	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>3,882</b>	<b>6,594</b>

### 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		

**Appendix 5B**  
**Mining exploration entity quarterly report**

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**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 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases – issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	106,436,002	106,436,002		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases - issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	18,008,607 3,135,626 1,350,000 <u>22,494,233</u>	18,008,607 - - -	<i>Exercise price</i> \$0.30 \$0.40 \$0.35	<i>Expiry date</i> 30/6/2007 30/6/2007 11/5/2008
7.8 Issued during quarter	1,350,000	-	\$0.35	11/5/2008
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b>				
7.12 <b>Unsecured notes</b>				

## 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.

Sign here:



(Company Secretary)

Date: 27 October 2006

Print name:

**Peter Torre**

## 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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