



## Mineral Commodities Ltd

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31 October, 2007

Australian Stock Exchange  
Company Announcements Office

### QUARTERLY ACTIVITIES REPORT

### FOR THE PERIOD ENDED 30 SEPTEMBER 2007

#### HIGHLIGHTS

- The Environmental Impact Assessment (EIA) for the Xolobeni project was compiled during the quarter and the draft report was lodged with the Department of Minerals and Energy subsequent to quarter-end. Xolobeni remains regarded as one of the largest undeveloped mineral sands resources in the world.
- The final Environmental Impact Assessment (EIA) and Environmental Management Programme (EMP) for the Tormin project was submitted to the Department of Minerals and Energy in Cape Town on the 23 July 2007. This was a revised document after public and government department requests for additional specialist studies were completed. The documents are currently under final review by the Department and the Minister of Minerals and Energy is due to rule on the Mining Right Application shortly.
- Legal proceedings commenced in the Federal Court of Australia on 12 October 2007 against Promet Engineers Africa (Pty) Ltd, Promet Engineers Pty Ltd, James Dinsdale Cribbes, Robert John Bennett and Richard George Ford. Mineral Commodities Limited claims damages for breach of Contract, as well as damages for contravention of the Trades Practises Act plus interest and costs, relating to a diamond pan plant at the company's No. 11 Oversize Tailings Dump at Koidu in the Republic of Sierra Leone.
- Mineral Commodities Limited's investment in Allied Gold Limited appreciated in market value substantially from \$8.4 million to \$13.5 million during the quarter. As at October 29 the investment value exceeded \$20 million.
- \$3.12 million before costs was raised through a share placement to institutional clients of UK based Mirabaud Securities Limited at \$0.26 per share in July 2007.

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**XOLOBENI MINERAL SANDS PROJECT (SOUTH AFRICA)**

The Xolobeni mineral sands deposit is located in the Eastern Cape Province of South Africa approximately 300 kilometres north of East London and 200 kilometres south of Durban.

Between June and November 2002 a detailed drilling programme over the Sikombe, Kwanyana and Mnyameni blocks within the tenement was completed. The results were assessed according to the JORC code by SRK Consulting, and used to complete a Resources Estimation Report and Desktop Mining Study.

The Xolobeni mineral resource is estimated to be 346 million tonnes of 5.0% heavy mineral, with 65% of this resource in the measured category.

<b>Area</b>	<b>Status</b>	<b>Tonnes (million)</b>	<b>% HM</b>	<b>% Ilmenite</b>
Sikombe	Measured	85	5.5	3.1
Kwanyana	Measured	139	5.8	3.1
Mnyameni	Indicated	104	4.1	2.2
Mpahlane	Inferred	18	2.3	1.6
<b>TOTAL</b>		<b>346</b>	<b>5.0</b>	<b>2.7</b>

**Table 1: Xolobeni Mineral Resource, 2003 at 1% Heavy Mineral Cut off Grade**

The Project is regarded as **one of the largest undeveloped mineral sands resources in the world containing in excess of 9,000,000 tonnes of Ilmenite**. The mining study concluded that the Xolobeni mineral sands deposit is economically viable with a mine life of some 22 years, producing some 250,000 tonnes per annum (tpa) of Ilmenite as well as 19,000 tpa of Rutile, 15,000 tpa of Zircon and 15,000 tpa of Leucoxene.

Mining Right Application

In March 2007 MRC's majority owned South African subsidiary Transworld Energy and Minerals Resources SA Pty Ltd (TEM) lodged the Mining Right Application for the Xolobeni Heavy Mineral Sands Project with the Department of Minerals and Energy (DME) in Port Elizabeth.

The completion of the Environmental Impact Assessment (EIA) for the project was the main priority for the quarter, in preparation for the submission of the Draft EIA at the DME in Port Elizabeth on 22 October 2007. Several focus group meetings were held where key interested parties were approached for comments on the EIA scope and the project. The EIA and accompanying Environmental Management Programme (EMP) will be available for review by the public and government departments.

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In November TEM's appointed Environmental Consultants GCS will present the outcomes of the EIA at various community, interested and affected parties, government departments and public meetings. Comments from these meetings and from government departments will be assessed by the DME. The DME will then instruct TEM on what further work is required in the EIA, if any. The environmental component of the project takes cognisance of the requirements of all relevant South African legislation.

#### Black Economic Empowerment (BEE) Partner

In October 2003 the Company formed an empowerment partnership with Xolobeni Empowerment Company (Pty) Ltd (Xolco), a community based black empowerment company. Underpinning the above mentioned Mining Right Application is the execution of a Shareholders Agreement with Xolco which provides for them to subscribe for a 26% interest in TEM. This establishes TEM as a fully compliant BEE company.

BEE compliance is a pre-condition to obtaining Mining Right approval under the South African Mineral and Petroleum Resources Development Act and the Broad-Based Socio Economic Empowerment Charter of South Africa.

Under the Shareholders Agreement and associated agreements, Xolco will effectively pay a subscription price of US\$18 million for its 26% interest in TEM. The subscription price will be paid by way of a preferred dividend payment from a portion of XolCo's share of the project cashflow once mining commences. The balance of XolCo's share of the cashflow will be used to develop community programmes through XolCo's community based trust companies.

All future funding of the project will be contributed by MRC by way of shareholder loans which are to be repaid as a priority over any other distribution by TEM.

#### TORMIN MINERAL SANDS PROJECT (SOUTH AFRICA)

The Tormin mineral sands prospect is a beach deposit located on the rugged west coast of South Africa, approximately 400km north of Cape Town. The deposit is strategically situated near the mouth of the Olifants River close to Trans Hex Group's (THG) diamond mining operations and approximately 50km south of Anglo's Namakwa Sands large scale heavy mineral sands mining operation located at Brand se Baai.

The Project is also in close proximity to Anglo's mineral separation plant at Koekenaap from where the project's planned output of mineral concentrate can be transported by existing inland rail some 200kms to the export port at Saldanha Bay.

MRC holds its interest in the Tormin project through South African subsidiary Mineral Sands Resources Pty Ltd (MSR).

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 by South African engineering consultants RSV K'enyuka to further refine the flow sheet including investigating the viability of only producing a non-magnetic Zircon enriched heavy mineral concentrate which would not require a Mineral Separation Plant (MSP) thereby significantly reducing the capital and operating costs.

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The Tormin project has been scoped to produce some 44,000 tpa of enriched non magnetic concentrate containing predominately Zircon and Rutile. The results of the study by RSV K'enyuka are under final review.

The Tormin project was previously investigated by THG who estimated the mineral resource at 3.43Mt containing 81,300t Zircon and 20,200 of Rutile in Measured, Indicated and Inferred categories based on RC drilling.

As part of a review to update the mineral resource it has been re-estimated using the THG RC drilling data and results of the MSR bulk sampling program. The revised estimate is 2.71Mt containing 76,100t Zircon and 18,300t Rutile.

Due to the nature of the deposit, the MSR resource estimate has been classified as Inferred. However, the correlation between the THG and the MSR work is very high leading to the conclusion that, with minimal check drilling, the resource category could be upgraded.

The final volumes calculated by THG were based in part on large diameter casing drilling which resulted in a 22% increase in volumes. Such an increase would also apply to the MSR estimate.

#### Mining Right Application

The Tormin Mineral Sands Project tenement area covers 120ha of mineralized beach which has accumulated along the approximate 12 km long x 100m wide beach zone. The project tenement areas are held under a granted Prospecting Permit covering the area to the north and an Old Order Mining Permit incorporating the area to the south which the company has purchased from Steenvas.

On 20 February 2007 MSR lodged its Mining Right Application (MRA) for the northern area of the Tormin Mineral Sands Project with the Department of Minerals and Energy.

In addition, the conversion of the existing Old Order Mining Permit to the south of the Prospecting Permit to a New Order Mining Right was lodged simultaneously. Once processed, the two rights will be consolidated into a single mining tenement.

The final Environmental Impact Assessment (EIA) and Environmental Management Programme (EMP) for the project were submitted to the DME in Cape Town on 23 July 2007. This was a revised document after public and government department requests for additional specialist studies were completed.

The EIA and EMP are currently under final review by the DME and the Minister of Minerals and Energy is expected to make a decision on the Mining Right Application before the end of 2007.

#### Black Economic Empowerment Partner

Underpinning the MRA is a Black Economic Empowerment (BEE) arrangement with Morodi Mining Resources (Proprietary) Limited (Morodi). Morodi is a 100% black owned mining company based in Johannesburg. It has its portfolio interest in Platinum, Diamonds and Platinum Group minerals in the Southern African region.

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BEE compliance is a pre-condition to obtaining mining right approval under the South African Mineral and Petroleum Resources Development Act and the Broad-Based Socio Economic Empowerment Charter of South Africa.

MRC and MSR have entered into a Shareholders Agreement with Morodi which will establish MSR as a fully compliant BEE company. Morodi will be participating as both shareholder and in the management of activities.

Under the Shareholders Agreement, Morodi will pay a subscription price of R5,531,636 for a 50% interest in MSR, it being agreed that, of the subscription price an amount of R3,531,636 shall be deferred until no later than the granting of the Mining Right, or such earlier date as Morodi may in its sole discretion elect. Against payment of the deferred amount Morodi will be entitled to subscribe for an additional share in MSR which will take its total shareholding to 50.25%.

The subscription price represents 50% of the value expended to date on the Project by MSR plus R2,000,000.

All future funding of the project will be contributed on an equal basis by both parties from the date of signing of the agreement.

MSR and MRC have also entered into a mining management agreement whereby MSR will be engaged to manage the Tormin Mineral Sands Project.

MSR has the right to increase its economic interest in the project by up to a further 23.75% to 74% in the event that Morodi cannot meet its funding obligations.

#### Concentrate Off-take Negotiations

The Company continues to field expressions of interest from parties that wish to secure the rights to the non magnetic heavy mineral concentrates likely to be produced from the Tormin project. Negotiations are at an advanced stage but remain pending the grant of the MRA.

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

The Company's 100% wholly owned Sierra Leone subsidiary, Kariba Kono (SL) Ltd, continued with its diamond tailings dump re-treatment project in Sierra Leone during the quarter. Kariba Kono's principal asset is the No. 11 Oversize Tailings Dump at Koidu however additional exploration within the Gbense Chiefdom has commenced.

During the previous quarter, the company suspended operations and put the diamond plant under care and maintenance pending an engineering and design review.

The company has held numerous discussions with ProMet Engineers regarding their failure to deliver the 80 tonnes per hour (80tph) throughput pursuant to the contractual performance guarantee. However these discussions have broken down and as a result the Company has been forced to commence legal action.

Legal proceedings commenced in the Federal Court of Australia on 12 October 2007 against Promet Engineers Africa (Pty) Ltd (Promet), Promet Engineers Pty Ltd, James Dinsdale Cribbes, Robert John Bennett and Richard George Ford.

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ProMet and MRC entered into a contract on 6 June 2006 whereupon Promet agreed to manufacture, supply, install, erect and commission a diamond pan plant at the company's No. 11 Oversize Tailings Dump at Koidu.

The proceedings have eventuated as a result of Promet's failure to manufacture, supply, install, erect and commission a diamond pan plant at the company's No 11 Oversize Tailings Dump in accordance with the terms of the Contract.

MRC claims in the proceedings that:

- (a) Promet breached the terms of the Contract; and
- (b) ProMet Engineers Africa, Promet Engineers, Cribbes, Bennett and Ford:
  - (i) engaged in misleading and deceptive conduct, and
  - (ii) breached s.52 of the Trade Practices Act.

MRC claims damages for breach of the Contract, as well as damages for contraventions of the Trade Practices Act, interest and costs.

During the previous quarter the Company had sought an independent audit of the plant and engaged Consulmet Engineers in South Africa. Their advice included the immediate introduction of a 50tph dense media separation (DMS) plant into the processing circuit. The Company is continuing with negotiations to acquire a 50tph DMS plant as soon as possible with a view to mobilising the unit to site and introducing the new item of plant into the existing circuit together with other minor engineering changes as identified by Consulmet. However this process had been delayed due to the national elections held in Sierra Leone during August and September 2007, which resulted in considerable civil unrest being experienced in the country. This led the Board to delay the mobilisation of any further equipment until the political situation had improved and the new government had sworn in the new ministry.

In the meantime the plant remains on care and maintenance and site personnel are making all necessary preparations to the plant and the infrastructure to install the DMS and ancillary equipment. MRC is confident that normal processing should re-commence in first quarter 2008.

#### Business Development

During the previous quarter the company's Sierra Leone subsidiary, Kariba Kono (SL) Ltd applied for a Mining Lease of some 200 acres at Masondu located approximately 5 kilometres north east of Koidu. The licence has not been granted as yet and the Company awaits the new schedule of fees for mining lease rents to be published, upon payment of which the licence will be granted and the company can initiate a programme of work to test the dykes for diamonds and diamond indicator minerals.

#### **PETRO VENTURES INTERNATIONAL LIMITED - INVESTMENT**

During the quarter the company continued as a seed capital investor in Petro Ventures International Limited (Petro). Petro has been set up to secure oil & gas opportunities primarily in Europe (including Former Soviet Union satellites) on low risk appraisal/ pre-development acreage in the vicinity of upstream infrastructure.

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Petro has presently secured two project areas in UK and offshore Romania. The company is also looking at securing advanced oil & gas plays in Morocco, Hungary, Holland and Ukraine.

Petro has been successful thus far in securing \$3,000,000 in seed capital to fund its objectives and has also secured a loan facility of US\$2.7m from Gemini Oil & Gas Fund II LLP to fund the drilling of the Breagh property in the UK North Sea. Drilling will commence next quarter and it is expected that the well will take approximately 4 weeks to drill. Petro is negotiating a further facility of US\$8.3m to fund the drilling of offshore Romania in early 2008.

It is expected that either an AIM or ASX listing for the company will be sought next year following the completion of drilling.

## **CORPORATE**

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

Allied Gold Limited (ALD) is a listed gold development and exploration company with the Tabar Islands Gold Project in Papua New Guinea as its principal asset. This comprises the Simberi Oxide Gold Project and all exploration property on the Tabar Islands Group. ALD has committed in excess of 90% of the revised budget of AUD\$87m to construct a 2.2 million tonne per annum gold mining operation. First gold production is anticipated in December 2007.

Production is expected to average 84,000 oz per annum for in excess of 8 years. ALD currently has Measured, Indicated and Inferred Resources of 2.389 million ounces of gold at the Simberi Project. It has recently purchased its own drill rigs and has recommenced exploration activities not only on Simberi Island but also on the adjacent Tatau and Big Tabar Islands.

MRC is one of the largest shareholders in ALD and currently holds a direct interest in 5.75% (approximately 19.5 million shares) of ALD's issued fully paid ordinary shares.

The market value of MRC's shareholding at 30 September 2007 was \$13.5 million (previous quarter reported \$8.4 million). Subsequent to quarter-end, ALD shares have appreciated significantly and as at October 29 MRC's stake is market-valued at around \$20 million.

### **Cash and Marketable Securities**

At 30 September 2007, MRC had \$2.9 million in cash with a further \$13.6 million in marketable securities (ALD and others). In aggregate this represents 13.2 cents per MRC share.

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## Securities on Issue

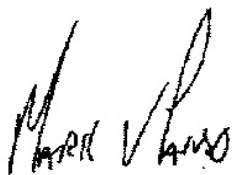
In July 2007 the company issued 12 million new shares at a subscription price of \$0.26 per share through a share placement to institutional clients of UK based Mirabaud Securities Limited. This raised approximately \$3 million to fund the company's resources project developments.

Issued securities at quarter-end comprise;

122,993,021 fully paid ordinary shares listed on the ASX

1,350,000 unlisted options expiring 11 May 2008 exercisable at \$0.35

Yours faithfully



**Mark Caruso**  
**Managing Director**

## For enquiries in connection with this release please contact:

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## Competent Persons

The information in this report that relates to Exploration Results for the Tormin Mineral Sands Project 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.

The information in this report that relates to Exploration Results of the Xolobeni Project is based on information compiled by Mr Daniel Guibal (SRK Consulting) a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.



# 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 2007

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$'000	Year to date (9months) \$'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	(401)	(919)
(b) development	(272)	(958)
(c) production		
(d) administration	(531)	(1,650)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	47	88
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other		
<b>Net Operating Cash Flows</b>	<b>(1,157)</b>	<b>(3,439)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of		
(a) prospects		
(b) equity investments	(495)	(495)
(c) investment in associate		(619)
(d) fixed assets	(36)	(353)
(e) Investments in controlled entities		
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		1,226
(c) other fixed assets		
1.10 Loans to other entities	(450)	(450)
1.11 Loans repaid by other entities		
1.12 Repayment of term deposits		
<b>Net investing cash flows</b>	<b>(981)</b>	<b>(691)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,138)</b>	<b>(4,130)</b>

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

1.13	Total operating and investing cash flows (brought forward)	<b>(2,138)</b>	<b>(4,130)</b>
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	3,323	4,349
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>3,323</b>	<b>4,349</b>
<b>Net increase (decrease) in cash held</b>			
		<b>1,185</b>	<b>219</b>
1.20	Cash at beginning of quarter/year to date	1,557	2,561
1.21	Exchange rate adjustments to item 1.20	177	139
1.22	<b>Cash at end of quarter</b>	<b>2,919</b>	<b>2,919</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	55
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

\$39,150 is directors' fees for non-executive directors (including back pay to February 2007).  
 \$16,100 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	N/A	N/A
3.2 Credit standby arrangements	N/A	N/A

**Estimated cash outflows for next quarter**

	\$'000
4.1 Exploration and evaluation	430
4.2 Development	270
<b>Total</b>	<b>700</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	2,919	1,557
5.2 Deposits at call	-	
5.3 Bank overdraft	-	
5.4 Bank Bill	-	
<b>Total: cash at end of quarter (item 1.22)</b>	<b>2,919</b>	<b>1,557</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				

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**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 <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>	122,993,021	122,993,021		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	1,195,116 12,000,000	1,195,116 12,000,000	\$0.30 \$0.26	\$0.30 \$0.26
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>	<u>1,350,000</u>	-	<i>Exercise price</i> \$0.35	<i>Expiry date</i> 11/5/2008
7.8 Issued during quarter				
7.9 Exercised during quarter	1,195,116	1,195,116		
7.10 Expired during quarter				
7.11 <b>Debentures</b>				
7.12 <b>Unsecured notes</b>				

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## 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: 31 October 2007

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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