



Quarterly Report For The Period Ending 30th September 2006

Highlights

- Mintails seeks voluntary suspension from Official Quotation pending completion of significant acquisition
- Proposed 100% acquisition of major South African based mining entity, Skeat Mining Group Pty Ltd (SGM) and all its operating subsidiaries
- Gold production continues at West Rand Project
- SAEDF variation of agreement

Proposed acquisition of SGM

On 22nd September 2006 the Company requested a voluntary trading halt and subsequently a suspension from Official Quotation pending completion of a significant acquisition. Due to matters of commercial sensitivity and confidentiality it was not possible to provide investors with additional information at that time. Subsequently the Company has reached agreement to acquire all the issued capital and undertakings of Skeat Gold Mining Pty Ltd ("SGM") one of the largest owners of mining and earth moving plant and equipment in Africa.

The negotiations which have included extensive mutual due diligence have been carried out over the past 6-8 weeks and has resulted in the board of Mintails unanimously supporting the proposed acquisition. A detailed Information Memorandum has been prepared and lodged for approval with the Australian Stock Exchange and is expected to be despatched to shareholders shortly.

Apart from owning one of the largest portfolios of mining plant and earth moving equipment in Africa SGM also operates a highly profitable heap leach mining operation on the East Rand, 90 kilometres east of Johannesburg. SGM is currently owned by a number of shareholders including Peter Skeat who is one of South African mining's pre-eminent figures being well known for mine engineering and establishing innovative, cost effective open pit mine and heap leaching operations.

SGM also recently acquired the East Dagga gold plant and holds an option to acquire the Brakpan gold plant which sits on the East Rand. These two plants formerly represented Anglo American's Ergo operations (Ergo processed over its history 890m tonnes of slimes tailings yielding in excess of 8.2m ounces of gold). These purchases leave SGM with substantial plant, equipment and earth moving assets that are surplus to their current heap leaching gold recovery operations. It is the intention of Mintails to acquire 100% of SGM allowing excess equipment to be removed from the East Rand operations and recommissioned on the West Rand, significantly improving ounces produce and decreasing costs per ounce.

Part of the rationale behind the acquisition of SGM is to utilise the earthmoving equipment and expertise of SGM to construct a new heap leach operation on the West Rand to process the higher grade sands tailings resources by heap leach. This will provide a third and significant revenue

+ See chapter 19 for defined terms.

stream and enable the combined Mogale / SGM operations to process significantly more tailings materials and recover substantially more gold than the two operations in isolation.

The acquisition will be completed through a mixture of shares in Mintails and cash which will be raised through a placement in the company. The total amount raised through the placement will be \$50 million with approximately \$23.07 million of that placement being paid to SGM Shareholders with the balance of the acquisition purchase being settled through the issue of 172,368,420 Mintails shares. (70% - 103,421,050 shares at acquisition date and an additional 30% - 68, 947,370 shares in three equal tranches of 22,982,458 shares each over the three subsequent years)

Key highlights of proposed merger:

- diversify risk across different income streams
- secure plant equipment and mining expertise so as to best exploit Mintails existing large mineral tailings
- deliver capacity and expertise to develop heap leaching gold recovery operation on the West Rand Goldfields
- provide additional assets overall including land and access to East Rand Rock dumps
- provide foundation for Mintails to implement its stage 2 expansion plans for development of its West Rand Goldfields gold recovery operations from internally generated cashflow

The majority of the plant and equipment acquired through the SGM Acquisition is intended to be redeployed at the Company's West Rand Goldfields operations and is expected to substantially increase production capacity. SGM through its wholly owned subsidiary HVH Gold (HVH) owns the decommissioned Daggafontein metallurgical plant (East Dagga) which it purchased from AngloGold Ashanti Limited in 2005. The East Dagga Plant is a well maintained gold production facility situated on the East Rand Goldfields 90 kilometres east of Johannesburg which was used by AngloGold Ashanti Limited in the Ergo tailings project. Substantial components of the East Dagga Plant such as pumps, tanks, piping and processing facilities can be relocated and commissioned at the Company's West Rand Goldfields production site. This will not only substantially increase the Company's production capacity but also is anticipated to significantly reduce the capital cost of the proposed future expansion of the slimes processing operations and the development of WERGO (West Rand Gold Operations).

HVH has also entered a contract to acquire the decommissioned Brakpan metallurgical plant (also situated on the East Rand Goldfields) from AngloGold Ashanti Limited for a sum of ZAR40 million (approximately AUD\$7 million). On acquisition of SGM the Company will provide funding to enable the completion of the purchase of the Brakpan Plant. The Brakpan Plant is a substantial and well maintained gold recovery facility which was also used by AngloGold Ashanti Limited in the Ergo tailings project. Once again, substantial components of the Brakpan Plant can be relocated and recommissioned at the Company's West Rand Goldfields production site to further increase production capacity and substantially reduce future capital costs.

The management and operations team of SGM will continue working for that Company following the acquisition. The continued involvement of the SGM management and operations team will ensure the maintenance of satisfactory production at SGM's existing heap leach gold recovery facilities. It is also envisaged that the expertise and experience of the SGM Team will significantly assist the Company in the development of its West Rand Goldfields production capability.

SGM, through its subsidiary HVH Gold acquired the rights to process screened rock of an agreed dimension from the rock dumps on the East Rand Goldfields. The agreements provide for HVH Gold to recover mineral content from the screened dump material. On securing these rights in 2005, HVH Gold commissioned an expert study on the potential of mining and processing portions of the

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East Rand Goldfields rock dumps. The study concluded that there was significant potential in the rock dumps to conduct a profitable mining and processing operation. Based on these findings and HVH Gold's own investigations a decision was taken during 2005 to commence development of a heap leaching operation on the East Rand. Construction was completed in early 2006 and production commenced in June 2006.

Apart from its mining assets SGM owns one of the largest earthmoving and construction fleets of vehicles in Africa. The SGM fleet comprises approximately 124 items of heavy-duty mining, fabrication and construction equipment relating to the fields of open cast mining, erection and construction of processing plants, and ongoing operations in the production of gold. Approximately one third of this fleet is currently employed in delivering feedstock to the heap leaching gold recovery operations undertaken by SGM's subsidiary HVH Gold on the East Rand Goldfields. The remaining fleet assets are therefore surplus to the needs of those operations.

Upon completion of the acquisition of SGM the surplus earthmoving fleet assets will be immediately redeployed towards the construction and development of the proposed new heap leaching operations on the West Rand. The Company is currently engaged in completing construction of a wash bay facility at the Mogale Plant. This wash bay is designed to receive tailings materials through bulk truck delivery as opposed to piping tailings to the plant through the slurry piping system. The construction of the wash bay will enable the Company to increase the feed of tailings to its existing CIL Plant and alter the mix of feed through sourcing tailings from sites not currently serviced by the slurry piping system.

The equipment acquired for demolition, erection and construction activities will be employed in the decommissioning and relocation to the West Rand Goldfields of a large proportion of the East Dagma and Brackpan Plants, avoiding the need for external contractors.

The Mintails board of Directors believe the acquisition of SGM will provide equipment and expertise to enable a substantial increase in production from the Company's tailings materials on the West Rand. The existing heap leaching operation of HVH Gold on the East Rand Goldfields and the proposed new heap leach operations to be constructed on the West Rand will further increase the Company's overall gold production.

West Rand Gold Operations

Commercial gold production from the Mogale plant was first reported in July this year. To date the company has produced a total of 5,592 ounces of gold from the Mogale Gold Plant. The company has been treating lower grade sections of the resource during the first quarter of 2006 which is anticipated to change to higher grade during the remainder of the financial year. On recommissioning the project, and based on independent engineering advice, Mintails replaced approximately 70% of the existing pipeline which provides the slurry feed to the Mogale Gold Plant on the basis that the remaining pipeline did not require replacement. The company has experienced a number of interruptions to production because of breakages that have occurred in the old section of the pipeline. As a result the company will have completed by mid November construction of a new pipeline to transport the slurry from the monitoring stations to the Mogale plant. The existing slurry pipeline will then be utilised as an additional facility for return water which will deliver water more efficiently and cost effectively back to the monitoring stations.

The company is also completing the installation of a wash bay which will enable additional tailings to be trucked and processed at the Mogale site. The effect of these two initiatives will be increased production and efficiency and lower cost per ounce with substantially decreased downtime and production interruptions.

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Mintails management have reported that all other sections of the Mogale Gold Plant are operating to specifications and given the initiatives described above, remain confident on achieving proposed annual gold production from the Mogale facilities of 42,500 ozs of gold per annum.

Variation of SAEDF Agreement

On 12th September Mintails announced a variation in its agreement with the South African Export Development Fund (“SAEDF”) who emerged as a substantial shareholder and creditor as a result of the acquisition by Mintails of the Mogale Gold Project. The original agreement between the two parties involved the cancellation of SAEDF’s debt of \$12.6 million in exchange for 17.5 million Mintails shares and a deferred payment of \$5.4 million which was to be paid out of profits.

The successful renegotiation of the terms provided for Mintails to make a cash payment of \$1.8m to SAEDF, an allotment of 10 million non-transferable options exercisable at 30 cents and 7.5 million non-transferable options exercisable at 50 cents, both with a 3 year expiry date in exchange for cancelling the outstanding debt to SAEDF and the proposed allotment of shares.

The net benefit to Mintails is an \$8.1 million gain. This is the difference between 17.5 million shares (\$4.5m) and the cancellation of the deferred debt of \$5.4 million less the cash payment to SAEDF of \$1.8 million.

Placement

In conjunction with the acquisition of SGM, the Company intends to issue to placement investors 166,700,000 Placement shares at 30 cents each to raise up to \$50 million. These Placement shares will be issued on the terms and conditions of existing ordinary shares.

A proportion of these funds (AUD 23m) will be provided to SGM shareholders as the cash proportion of the acquisition price, of which approximately AUD 15 million be applied towards the settlement of loans due to SGM shareholders, with the balance devoted to settlement of the acquisition of the Brakpan Gold Plant, and expansion of both existing and new operations. Full details will be contained in the Information Memorandum to be dispatched to shareholders shortly.

For And On Behalf Of The Board



Bryan J Frost
Chairman

Appendix 5B – 1st Quarter

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:

MINTAILS LIMITED

ABN:

45 008 740 672

Quarter Ended ('Current Quarter')

30th September 2006

Consolidated Statement of Cash Flows

	Current Quarter \$A'000	Year to Date (3 months) \$A'000
<u>Cash Flows Related to Operating Activities</u>		
1.1 Receipts from product sales and related debtors	2,827	2,827
1.2 Payments for: (a) exploration and evaluation	-	-
(b) development	-	-
(c) production	(5,399)	(5,399)
(d) administration	(571)	(571)
(e) contract services	(272)	(272)
(f) staff costs	(121)	(121)
(g) other working capital	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	91	91
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(3,445)	(3,445)
<u>Cash Flows Related to Investing Activities</u>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	(212)	(212)
(b) equity investments	-	-
(c) other fixed assets	(384)	(384)
1.10 Loans to other entities	(592)	(592)
1.11 Loans repaid to other entities	-	-
1.12 Other (provide details if material)	(424)	(424)
Net Investing Cash Flows	(1,612)	(1,612)
1.13 Total Operating and Investing Cash Flows	(5,057)	(5,057)

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		Current Quarter \$A'000	Year to Date (3 months) \$A'000
1.13	Total Operating and Investing Cash Flows (Carried Forward)	(5,057)	(5,057)
Cash Flows Related to Financing Activities			
1.14	Proceeds from issues of shares, options, etc.	8,415	8,415
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 (provide details if material)	-	-
Net Financing Cash Flows		8,415	8,415
Net Increase / (Decrease) in Cash Held		3,358	3,358
1.20	Cash at beginning of quarter/year to date	5,450	5,450
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at End of Quarter	8,808	8,808

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	102
1.24	Aggregate amount of loans to the parties included in item 1.10	
1.25	Explanation necessary for an understanding of the transactions	
Salaries, directors' fees, corporate advisory & consulting fees at normal commercial rates		

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
- | |
|---|
| - |
|---|
- 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
- | |
|---|
| - |
|---|

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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	135
4.2 Development	
Total:	-

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	3,232	3,776
5.2 Deposits at call	5,576	1,674
5.3 Bank overdraft		-
5.4 Other (provide details)		-
Total: Cash at End of Quarter (item 1.22)	8,808	5,450

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	Nil	Interests in mining tenements relinquished, reduced or lapsed		
6.2	Nil	Interests in mining tenements acquired or increased		

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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 (cents) (see note 3)	Amount Paid Up Per Security (cents) (see note 3)
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	225,694,799	199,094,799	-	-
7.4	Changes during quarter (a) Increases through issues	21,138,000		-	-
	(b) Decreases through returns of capital, buy- backs			-	-
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 <i>(Description and Conversion Factor)</i>				
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

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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:



Director

Date: 31st October 2006

Print Name:

Richard Revelins

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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