



## **MITHRIL RESOURCES LTD**

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## **REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2006**

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## Highlights

### CORPORATE

- Cash reserves were \$4,121,000 at 30 September 2006, taking into consideration joint venture receivables and outstanding creditors.
- The Board of Directors of Mithril Resources accepted the resignation of the Managing Director, David Miller effective September 29th, 2006. Mr Miller has made very significant contributions to Mithril since its establishment in November 2002 and has resigned for personal reasons.
- Mr Graham Ascough has agreed to accept the position of Managing Director of Mithril Resources Ltd and commenced employment on October 11th, 2006.

### EXPLORATION

#### Silver Swan North Joint Venture - Western Australia

- During the quarter Mithril announced an 11 hole Reverse Circulation (“RC”) percussion drill program on the Silver Swan North Joint Venture scheduled to commence in the last quarter of 2006. The programme will be funded by BHP Billiton, as part of the Mithril / BHP Billiton Alliance.

#### Byro Joint Venture - Western Australia

- Electromagnetic (“EM”) surveys employing BHP Billiton’s proprietary GeoFerret technology were in progress at the end of the quarter. Compilation has identified an untested Induced Polarization (“IP”) anomaly associated with the ultramafic intrusive at Byro. It is planned to advance this target to the drill stage as soon as possible.

#### Dominion Joint Venture - South Australia

- Geochemical results from the Dominion JV have highlighted six target areas for ground EM follow-up. The priority is the Aristarchus Prospect where geochemical results returned values of 0.36% nickel, with anomalous copper and nickel values in adjacent holes over a strike length of 2 kilometres (“km”). Ground EM surveys are currently in progress on the six target areas.

#### Indiana Project - Northern Territory

- Field verification of nickel-copper anomalism at Jinka confirmed that maximum values are concentrated around several prominent silicified caps; the weathered product of ultramafic bodies and potential host rocks for nickel-copper sulphide mineralization. Ground EM surveys are planned for November 2006 with a view to delineating drill targets for testing in early 2007.

# **REVIEW OF OPERATIONS**

## **CORPORATE**

At the end of the June quarter, Mithril had cash reserves (taking into consideration joint venture receivables and outstanding creditors) of \$4,121,000.

During the quarter the Board of Directors accepted the resignation of the Managing Director, Mr David Miller, effective September 29, 2006. Mr Miller has resigned for personal reasons but will be available to consult to Mithril as required until the end of the calendar year.

On September 29<sup>th</sup> the Board announced that Mr Graham Ascough has agreed to accept the position of Managing Director of Mithril. Mr Ascough has 17 years of exploration experience and was Manager of Nickel and PGM Exploration for Falconbridge (Australia) Pty Ltd prior to his decision to join Mithril. He is a geophysicist by training with a strong technical background and has considerable International and Australian experience focused on evaluating and exploring base metal and nickel sulphide opportunities. Overall, Mr Ascough has had broad industry involvement ranging from playing a leading role in setting the strategic direction for significant country-wide exploration programmes, to working directly with junior explorers.

## **EXPLORATION**

During the reporting period Mithril Resources continued to advance priority projects to the drill stage. In the next Quarter Mithril intends to commence further drilling on the Silver Swan North JV project (currently funded under the Mithril / BHP Billiton alliance). In addition, Mithril will advance other greenfield projects towards the drill stage including the Byro Project in WA, the Dominion Project in SA and the Indiana Project in the NT. These projects will be presented to our alliance partner for potential funding under the Mithril / BHP Billiton Alliance with a view to commencing drilling in the first half of 2007. The locations of current projects are shown in Figure 1.



Figure 1: Project Locations

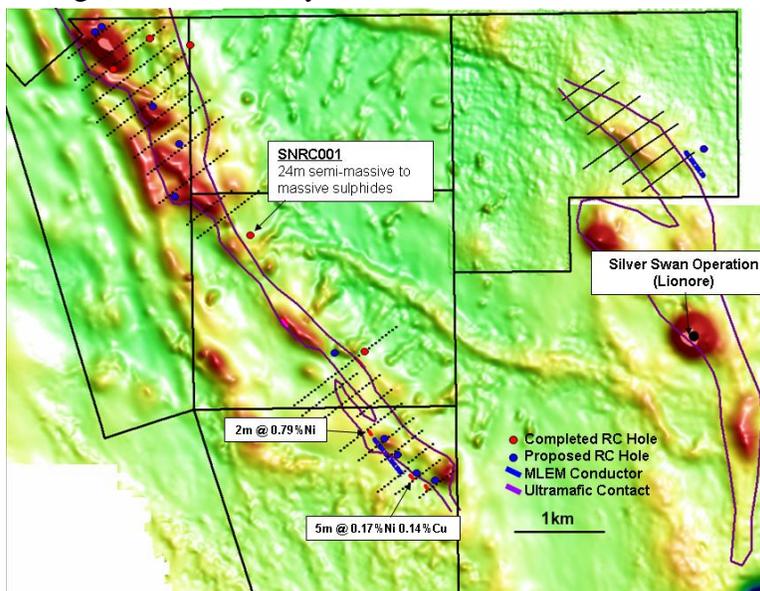
## Western Australia Projects

**Silver Swan North Joint Venture Western Australia; Exploration Licence (EL) 27/209 and Mining Leases 27/262-265  
Mithril and BHP Billiton earning 51%**

The Silver Swan North Joint Venture Project is situated approximately 45 km north-northeast of Kalgoorlie Western Australia and immediately adjacent to the Silver Swan Nickel Mine operated by LionOre.

Mithril Resources and BHP Billiton are earning a 51% interest in one Exploration Licence E27/209 and four Mining Leases M27/262-265 currently held 100% by FerrAus Ltd. The landholding forms a contiguous area totaling approximately 39 km<sup>2</sup> and covers a succession of Archaean felsic, mafic and ultramafic rocks that have only been subjected to shallow drilling to date. The ultramafic rocks are the host sequence for the Silver Swan and Black Swan nickel deposits.

During the reporting period further ground EM surveys identified two conductive bodies that warrant drill testing. In addition, a reinterpretation of the geology from shallow drilling in the area identified a number of geological and geochemical targets along the prospective western basal contact of the ultramafic package. A drill program of 11 RC percussion drillholes totaling 2750 metres is planned to commence on the Silver Swan North Joint Venture in the next quarter. This program will be funded by BHP Billiton, as part of the Mithril / BHP Billiton alliance.



Mithril and BHP Billiton continue to view the area as highly prospective for nickel sulphides.

**Byro Joint Venture Western Australia; EL 09/781 and ELA 09/1276  
Mithril earning 70%**

Mithril is currently earning a 70% interest in the Byro Project in Western Australia currently held 100% by Yilgarn Mining Limited. The project area, comprising 209 square km<sup>2</sup>, covers a cluster of ultramafic bodies into which limited drilling (during the 1970s) gave a best intersection of 67 metres at 0.67% copper and 0.3% nickel, including 16.8 metres at 1.17% copper and 0.33% nickel.

Mithril has completed 52.3 line km of ground electromagnetic surveys implementing the GeoFerret EM technology available to Mithril under the alliance with BHP Billiton. The survey provides coverage over the main Byro ultramafic body and a smaller body to the east (Byro East) at a 200m line spacing. Results from this survey are being assessed. Compilation work identified an untested IP anomaly associated with the ultramafic intrusive at Byro. It is Mithril's intention to advance this target to the drill stage as soon as possible.

## **South Australian Projects**

### **Dominion Joint Venture (S.A.); EL's 3435, 3270, 2778, 3044 and 3300 Mithril earning 75%**

The joint venture with Dominion Mining Limited covers 3332 km<sup>2</sup> currently held under five Exploration Licences by Dominion in the Fowler Domain of the Gawler Craton of South Australia.

During the quarter Mithril received and assessed analytical results from the 62 air core drill holes completed in the June quarter that tested a combination of geophysical and geochemical targets. Analytical results were also returned from the resampling of historical air core drill holes not previously analysed for nickel and associated elements. The maximum value returned was 0.36% nickel at the Aristarchus prospect. At Aristarchus significantly anomalous nickel and copper values in adjacent holes over strike length of 2 km were also noted. Several other anomalous areas were also identified that appear to be related to mafic/ultramafic intrusives as defined by the magnetic results. Ground EM surveys are currently in progress on six priority targets.

### **Talia Hill Joint Venture (S.A.); EL 2842 BHP Billiton earning 82%**

As previously reported, government approvals have been received to progress the drill testing of the Yerda gravity anomaly at Talia Hill. The Yerda gravity anomaly is thought to be prospective for iron-oxide-copper-gold (IOCG) style mineralization.

A heritage clearance survey was successfully completed under the Heritage Protection Agreement with the Far West Coast Native Title Claim Group. All regulatory hurdles have now been cleared however drilling is unlikely to commence before 2007 due to a lack of available drill crews and equipment.

### **Streaky Bay Joint Venture (S.A.); EL's 2861 and 2891 Minotaur Exploration Ltd earning 75%**

As reported last quarter Minotaur Exploration Ltd completed an aircore drilling program targeting iron oxide copper gold mineralisation. A total of 41 aircore holes were drilled for 2,844 metres. Analytical results from this drilling became available this quarter and did not indicate any significant mineralization. Further work completed this quarter consisted of data compilation and integration.

### **Kalli Joint Venture (S.A.); EL 2870 and ELA 03/26 Iluka earning 51%**

No field work was completed during the quarter. Work concentrated on securing access agreements with the relevant claimant group. It is expected that drill testing of mineral sands target areas in EL2870 will commence once outstanding access issues are finalised.

Mithril retains all rights to explore for and develop mineral deposits within the bedrock and will continue to evaluate the nickel sulphide potential.

## **Northern Territory Leases**

### **Indiana (N.T.); Exploration Licences (EL's) 24427, 24194 and 24739**

#### **Mithril 100%**

Geological mapping and further geochemical sampling was completed over the geochemical anomalies defined by soil sampling completed in the previous quarter. Results from the Jinka grid indicate that the area of maximum nickel-copper anomalism is concentrated around several prominent silicified caps; the weathered product of ultramafic bodies. Maximum values returned were 0.54% Ni from rock samples and 0.15% Ni from soil samples.

At the Indiana grid re-sampling of the copper-nickel soil anomaly confirmed the anomalous values as well as indicating elevated levels of platinum and palladium. No outcrop was located but the soils are interpreted to be residual further highlighting the prospectivity of the area to host nickel-copper sulphide mineralisation.

Ground EM surveys over the geochemically anomalous areas are planned for the December quarter.

### **Hammer Hill Joint Venture (N.T.); EL9725, EL10136**

#### **Mithril earning 70%**

Mithril Resources is currently earning a 70% interest in exploration licences 9725 and 10136 which are currently held 100% by Arafura Resources Ltd. These tenements are immediately west of and contiguous with Mithril's Indiana Project providing a significant landholding (2019 km<sup>2</sup>) in what is thought to be an emerging belt prospective for nickel sulphide mineralization.

At Hammer Hill surface geochemical sampling completed over seven grids during the June quarter identified a number of anomalous areas requiring further work. Field follow-up of these areas was completed this quarter and included geological mapping and check sampling over the previously defined geochemical anomalies. A maximum result of 1750ppm Ni was returned from interpreted silicified ultramafic caprock within one of the target areas.

A ground EM survey over three areas is planned for the December quarter.

**Casey (N.T.); E.L. 24646**  
**Mithril 100%**

A geological mapping, prospecting and stream sediment sampling program was completed on the project this quarter. This program identified a number of mafic / ultramafic bodies with nickel values over 1000ppm, copper to 405ppm and elevated platinum and palladium values. In addition a gossanous outcrop found and sampled within a metasedimentary package returned 0.51% copper and 0.29% zinc and petrography confirmed the presence of boxwork textures after sulphides. A field visit is planned in the next quarter to further evaluate the mafic / ultramafic bodies and the copper / zinc gossan area.

**Neutral Junction Joint Venture (N.T.); E.L. 24253**  
**Mega Uranium Limited earning 80%**

Mega Uranium is exploring for uranium on the lease area. Work completed includes geological mapping and ground magnetics concentrating on the unconformity between the Central Mount Stuart Formation and the older Proterozoic rocks of the Arunta Province. Further work planned includes a spectrometer survey. Once this data is assessed drill testing of anomalous areas may be warranted.

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr G L Ascough, who is Managing Director and a full time employee of the Company and a Member of the Australasian Institute of Mining and Metallurgy. Mr G L Ascough has more than 5 years' experience which is relevant to the styles of mineralization and types 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". Mr G L Ascough 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

**MITHRIL RESOURCES LTD**

**ABN 30 099 883 922**

Quarter ended  
30-Sep-06

**Consolidated statement of cash flows**

**Cash flows related to operating activities**

- 1.1 Receipts from product sales and related debtors
- 1.2 Payments for
  - (a) exploration and evaluation
  - (b) development
  - (c) production
  - (d) administration
- 1.3 Dividends received
- 1.4 Interest and other items of a similar nature received
- 1.5 Interest and other costs of finance paid
- 1.6 Income taxes paid
- 1.7 Other - Joint Venture repayments
- 1.7 Other - Rebates

**Net Operating Cash Flows**

**Cash flows related to investing activities**

- 1.8 Payment for purchases of:
  - (a) prospects
  - (b) equity investments
  - (c) other fixed assets
- 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)

**Net Investing cash flows**

- 1.13 Total operating and investing cash flows  
(carried forward)

Current quarter	Year to date (3 months)
\$A'000	\$A'000
-	-
(333)	(333)
(123)	(123)
64	64
184	184
(208)	(208)
-	-
-	-
-	-
-	-
-	-
-	-
0	0
(208)	(208)

1.13 Total operating and investing cash flows (brought forward)	(208)	(208)
<b>Cash flows related to financing activities</b>		
1.14 Proceeds from issues of shares, options, etc	-	-
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 (Share issue costs)	-	-
<b>Net financing cash flows</b>	-	-
<b>Net increase (decrease) in cash held</b>	(208)	(208)
1.20 Cash at beginning of quarter / year to date	4,329	4,329
1.21 Exchange rate adjustments to item 1.20	-	-
1.22 <b>Cash at end of quarter</b>	4,121	4,121
<b>Payments to directors of the entity and associates of the directors</b>		
<b>Payments to related entities of the entity and associates of the related entities</b>		Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2		44
1.24 Aggregate amount of loans to the parties included in item 1.10		-
1.25 Explanation necessary for an understanding of the transactions		
Directors' fees, superannuation for the Quarter		
<b>Non-cash financing and investing activities</b>		
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
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**Financing facilities available**

	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	984
4.2 Development	-
<b>Total</b>	<b>0</b>

**Reconciliation of cash**

	Current quarter \$A'000	Previous quarter \$A'000
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.		
5.1 Cash on hand and at bank	32	29
5.2 Deposits at call	4,088	4,300
5.3 Bank overdraft		
5.4 Other (provide details) - 30 and 60 day term deposits		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,121</b>	<b>4,329</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	Nil		
6.2	Interests in mining tenements acquired or increased	Nil		

## Issued and quoted securities at end of current quarter

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>Ordinary securities</b>	35,593,000	35,593,000	Fully paid	Fully paid
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 through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	1,000,000 12,500,000 5,400,000 2,000,000 200,000 200,000 100,000 500,000 350,000 100,000 500,000 50,000 90,000		<u>Excise Price</u> 25 cents each 50 cents each Various Various 25 cents each 30 cents each 25 cents each 35 cents each 40 cents each 40 cents each 40 cents each 35 cents each 40 cents each	<u>Expiry Date</u> 2/05/2007 11/11/2007 28/05/2007 11/11/2007 30/09/2007 30/09/2007 25/02/2008 25/09/2008 26/11/2008 31/01/2010 16/05/2010 31/12/2010 15/05/2011
7.8 Issued during quarter				

7.9	Exercised during quarter				
7.10	Cancelled during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

### Compliance statement

- 1.0 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).
- 2.0 This statement does give a true and fair view of the matters disclosed.



Sign here:.....  
Company Secretary

Date: 25/10/2006

Print name: DONALD STEPHENS  
.....

### Notes

- 1.0 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.
- 2.0 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.
- 3.0 **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.
- 4.0 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5.0 **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.