



A.C.N 091 415 968

QUARTERLY REPORT 30 SEPTEMBER 2006

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## SYLVANIA RESOURCES LIMITED (ASX:SLV.AX)

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### HIGHLIGHTS

- **The first production of 44% Cr<sub>2</sub>O<sub>3</sub> metallurgical grade chromite concentrate from the Millsell chrome washing plant has been sold to Samancor**
  - **Matomo Projects Pty Ltd was appointed for the design of chrome washing and PGM recovery plants**
  - **Exploration Drilling progressing at Everest North**
  - **Chrome Tailings Re-treatment Project ("CTRP") produced 1,711 PGM ounces for the September 2006 quarter**
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### SOUTH AFRICAN OPERATIONS

#### Progress with Chrome Washing and PGM Recovery Plants

The Millsell Chrome Washing Plant ("CWP") was originally commissioned on a feed of current tailings from the Samancor Millsell Chrome Plant. During the quarter, construction work progressed and production was increased as material from peripheral dumps was mined by front end loader and fed to the plant. By the end of the period, the construction of the scraper and winch system for mining the main Millsell dump was nearing completion. Outstanding items of equipment, including the ball mill, thickener and new tailings system pumps, are due to be installed by the end of November.

A number of small contracting companies were used for the mechanical, civil and electrical works associated with the first stage of the Millsell CWP. During the quarter, Matomo Projects Pty Ltd (Matomo) was appointed to assist with the engineering requirements of the project. Sylvania is planning to formalize a contract with Matomo, for all of the remaining engineering associated with the CWP's and PGM Recovery Plants ("PRP's"), during the forthcoming quarter.

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Mechanical and civil designs are now complete, whilst electrical and instrumentation designs are being finalized. Being modular, these designs can be easily adapted to meet the requirements of individual sites.

Final details of the construction contracts for the additional CWP's and PRP's are being negotiated with Matomo. All equipment, platework and structural steelwork have been ordered for three CWP's. Structural steelwork has been fabricated for the first of these plants which will be erected at Steelpoort. The construction team for the Steelpoort plant is standing by for final approvals from Samancor before moving onto site and commencing civil works.

Long delivery items, including pumps and flotation cells, have been ordered for three PRP's (Millsell, Steelpoort and Elandsdrift). The Company is currently reviewing its Business Plan with a view to bringing the PRP's into production significantly earlier than anticipated in the AIM admission document, dated 17 July 2006. The Company will clarify any changes in the timing of the construction of its PRP's when such planning is finalized.

### **Samancor Contracts**

During the previous quarter, it was noted that Sylvania had signed a range of agreements with Samancor in relation to the retreatment of tailings for the extraction of chrome and PGM's from tailings dumps located in the Bushveld Complex of South Africa. Full details of these contracts are disclosed in the AIM admission document.

It was also disclosed in the Company's AIM admission document that there may be certain risks associated with current understandings of the ownership of mineral rights in tailings dumps in South Africa.

In September 2006, it came to the Directors' attention that a third party, per force of contract, has reserved to itself certain rights to PGM minerals in the Mooinooi Dump and Mooinooi current arisings. Such reservation of rights does not affect the chrome values found in such material.

On 20 September 2006, the Directors announced that they were of the view that these issues will be resolved in the normal course of business and that Sylvania's growth plans remain on track.

During the quarter, contractual arrangements between Samancor and Sylvania continued to evolve as details associated with project implementation were finalized.

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### **Everest North Project**

On 21 September 2006, Sylvania announced that it had signed a Letter of Intent with Eastern Platinum Limited ("Eastplats") with the objective of establishing a Pool and Share Agreement on the Everest North and Mareesburg properties respectively. These properties are contiguous and cover a geologically discreet PGM resource. The combined Everest North and Mareesburg resource is similar to the Everest South deposit of Aquarius Platinum Limited in that it is an outlier from the main area of the Bushveld Igneous Complex.

Previous work at Everest North has outlined an Inferred Resource of 4.2 million tonnes grading 5.87 g/t (Platinum, Palladium, Rhodium and Gold), containing 796,000 ounces of PGM's.

The drilling program currently in progress on Everest North is intended to define a Measured Resource of UG2 ore. To achieve this, the drill-hole collar spacing interval has been set at an average of 200 meters. By the end of the quarter, boreholes VH1 to VH7 had been completed with deflections to give three reef intersections per borehole.

All of the Sylvania boreholes have intersected well developed UG2 reef. The average reef thickness is about 1.42 meters with the narrowest intersection being 1.21 meters and the thickest being 1.42 meters. The intersections have shown a full UG2 package with no internal pyroxenite waste. It is also pleasing to note that the reef intersections are robust with good top and bottom contacts to competent country rock. These properties augers well for the future mining of the UG2 mineralisation at Everest North.

Borehole cores have been logged and photographed before being split longitudinally and subject to SG determination. Samples have been sent in for PGE and base metals assay; at Genalysis (Perth, Australia) and results are awaited. Preliminary structural modeling of the orebody has commenced using the new information from the current drilling program, in conjunction with historical data from previous exploration.

### **Chromite Tailings Retreatment Project (CTRP) (Sylvania Resources 25%)**

During the quarter only current arisings from the Kroondal Chrome Mine were fed to the CTRP. Although operations were stable and consistent, the feed from the Chrome Mine decreased throughout the period. There was also a larger proportion of oxidized material in the feed which adversely affected recoveries. This had the following effect on operations:

- Plant processed 26,000 tons, a decrease of 20% compared with the previous quarter
- 1,711 PGM ounces produced (Sylvania attributable 428 PGM ounces)
- Small fall in recoveries to 64% from 68% in the previous quarter



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- Cash costs increase by 14% in US\$ terms to US\$311 per 4PGE ounce. Costs increased in Rand terms to R2,202 per 4PGE ounce from R1,721 in previous quarter.
- PGM basket price for the quarter increased 12% to US\$1,622 per PGM ounce
- Revenue for the quarter was unchanged at R18 million (Sylvania attributable R4.5 million), with the cash margin falling to 79% from 88%

A project to add dump material from the Kroondal Chrome Mine to the CTRP feed was commissioned at the end of September, and it is anticipated that this will result in an increase in production.

### AUSTRALIAN OPERATIONS

No field work was undertaken by the Company on its Australian tenements during the quarter.

On 16 August 2004, Sylvania entered into an Option Agreement with Warwick John Flint ("Flint") over all its Australian tenements at Jimblebar and Copper Knob. Under the terms of the Option Agreement Flint had the right to exercise the Option at any time up until 16 August 2006, to acquire Sylvania's interests in its Australian tenements for the consideration of A\$55,000, and the issuance to Sylvania of fully paid ordinary shares in a listed entity to the value of A\$300,000. Flint had the obligation to maintain the tenements in good standing during the life of the Option Agreement.

During the quarter, Flint and the Company extended the Option Agreement until 16 February 2007 for an Option fee of \$7,500. Under the terms of the Option Agreement extension, the share consideration component of the exercise price of the Option remains at \$300,000.

### CORPORATE

In accordance with the terms of the Co-Operation Agreement with Portpatrick Limited, the Company issued 5,275,000 million ordinary shares of no par or nominal value in the Company to Portpatrick Limited, or its nominee, during the quarter for securing the prospecting rights to certain prospective tailings dumps.



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A handwritten signature in black ink, appearing to read "E. Nealon".

**ED NEALON**  
**Non Executive Chairman**

The technical exploration and mining information contained in this report was compiled by Mr Ed Nealon, a Sylvania Resources Ltd director. Mr Nealon provides consulting services via his company Athlone International Pty Ltd. Mr Nealon is a member of the Australasian Institute of Mining and Metallurgy and is considered to be a Competent Person in his respective area of expertise pursuant to the Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Nealon consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Further information please contact:

**In Australia:**

Sylvania Resources Limited  
Ed Nealon/Grant Button  
+61 8 9481 8711

or visit our website at [www.sylvaniareources.com](http://www.sylvaniareources.com)

# Appendix 5B

## Mining exploration entity quarterly report

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

Name of entity

SYLVANIA RESOURCES LIMITED

ACN or ARBN

091 415 968

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 (12 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(264)	(264)
(b) development	(859)	(859)
(c) production		
(d) administration	(1,693)	(1,693)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	218	218
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other – Forex	(658)	(658)
Other – GST/VAT Refund	33	33
Other	11	11
<b>Net Operating Cash Flows</b>	<b>(3,212)</b>	<b>(3,212)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(35)	(35)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities	(113)	(113)
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
<b>Net investing cash flows</b>	<b>(148)</b>	<b>(148)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(3,360)</b>	<b>(3,360)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(3,360)	(3,360)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	29,488	29,488
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 – capital raising costs	(2,322)	(2,322)
	<b>Net financing cash flows</b>	<b>27,166</b>	<b>27,166</b>
	<b>Net increase (decrease) in cash held</b>	<b>23,806</b>	<b>23,806</b>
1.20	Cash at beginning of quarter/year to date	5,804	5,804
1.21	Exchange rate adjustments to item 1.20	143	143
1.22	Cash at end of quarter	29,753	29,753

**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	314
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**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

During the quarter the company issued 5,275,000 shares at a deemed issue price of \$0.74 for services rendered in securing opportunities to participate in Eligible Projects involving the re-treatment of Samancor's tailings for the extraction of chrome at Samancor's tailings dumps at its Western Chrome Mines and Eastern Chrome Mines

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

+ See chapter 19 for defined terms.

### 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	2,803
4.2 Development	6,160
<b>Total</b>	<b>8,963</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 \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	26,386	249
5.2 Deposits at call	3,367	5,555
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>29,753</b>	<b>5,804</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			

+ 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)	Amount paid up per security (see note 3)
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>	150,804,273	150,804,273	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	45,275,000	45,275,000	0.74	0.74
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>	-	-	<i>Exercise price</i> -	<i>Expiry date</i>
7.8 Issued during quarter	-	-	-	
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law 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:



Date: 31 October 2006

Print name:

Company Secretary  
Mike Langoulant

## Notes

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- 1 This 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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