

ASX Code: CMY

Issued Shares: 68.2M

Market Capitalisation: \$ 4.8M

Cash Balance: \$0.41M

QUARTERLY ACTIVITIES REPORT SEPTEMBER 2010



HIGHLIGHTS

CORPORATE

- ❖ *New alliance with Chinese backed partner forged*
- ❖ *Company transforming capital injection of A\$3.2 million announced*
- ❖ *Funding to be boosted and exploration to be accelerated*
- ❖ *New source of projects and development opportunities to be introduced*
- ❖ *Evaluation of potential new acquisitions commenced*

MILPARINKA GOLD-PLATINUM-NICKEL PROJECT, NSW

- ❖ *New joint venture formed with drilling specialist company*
- ❖ *Funding for first pass exploration drilling secured*
- ❖ *Targets selected*
- ❖ *Drill programme approved*
- ❖ *Rig mobilisation awaited*

MUNDAERNO URANIUM PROJECT, SA

- ❖ *New joint venture formed with drilling specialist company*
- ❖ *Funding for first pass exploration drilling secured*
- ❖ *Targets selected*
- ❖ *Preparations for drilling advanced*

NARRABURRA ZIRCONIUM- REE PROJECT, NSW

- ❖ *Lithium potential of identified resource confirmed by assays*

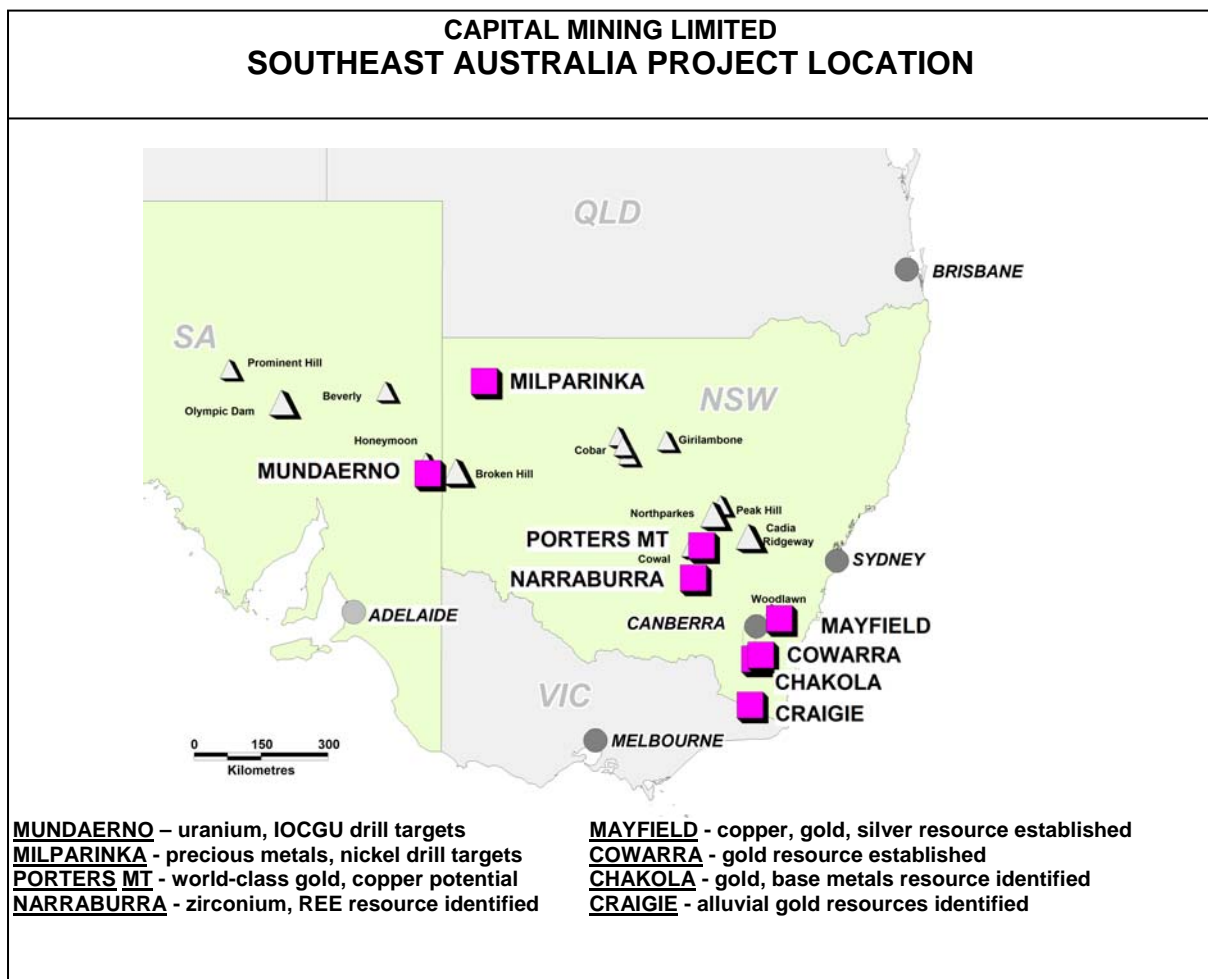
COWARRA GOLD PROJECT, NSW

- ❖ *Soil sampling closes off gold anomalies at Firestone Ridge*
- ❖ *Drill targets selected*
- ❖ *Exploration and resource outline drilling planned*

EXPLORATION ACTIVITIES

Exploration activities during the quarter centred on the Mundaerno, Milparinka, Cowarra and Narraburra project areas. Preparations, which included site visits, were made for first pass drilling at Mundaerno and Milparinka, infill soil sampling was completed at the Firestone Ridge prospect in the Cowarra licence area and lithium analysis results from the Narraburra Rare Metals and Rare Earth Elements prospect were received.

In August the Company announced that it had entered into an agreement with **Australian Mineral and Waterwell Drilling Pty Ltd** ("AMWD") to fund direct drilling costs at the Mundaerno and Milparinka project areas for equity in the tenements and in September the Board was pleased to release details of an agreement with Sydney based company **China Metallurgical Investment Limited** ("CMI") that subject to shareholder approval, would see CMI inject A\$3.2M into Capital Mining, become a major shareholder, accelerate advancement of existing projects and introduce new opportunities and skills to the company.



MUNDAERNO SOUTH - URANIUM

EL 3853 - 52 km² - Olary, SA

(Capital Mining 100% - AMWD Earning 49%)

The Mundaerno South tenement area is being explored for calcrete and sandstone hosted uranium deposits in the sedimentary cover sequence and for iron oxide bearing copper-gold-uranium-REE deposits (IOCGU) in underlying crystalline basement rocks. The tenement is located in a uranium producing province within the Curnamona Craton and covers a series of untested palaeochannels that are prospective for deposits similar to those at the nearby Honeymoon uranium mine. A site visit was completed during the reporting period and preparations are being made for a first pass drilling programme which is to be carried out by joint venture partner **Australian Mineral and Waterwell Drilling Pty Ltd** ("AMWD" ACN 127 948 850) once site clearance has been obtained. The drilling has been designed to test a series of previously unexplored palaeochannels and deeper geophysical anomalies across the tenement.

MILPARINKA - GOLD-PLATINUM-NICKEL

EL 6832 - 149 km² - Milparinka, NSW

(Capital Mining 100%; AMWD Earning 49%)

Exploration at Milparinka is for world-class platinum-nickel and gold-copper deposits that are predicted to be associated with a very large magnetic complex which is interpreted to be a deeply buried mafic to ultramafic intrusive mass of mantle derivation. The intrusive mass is thought to have formed a thermal hotspot in the crust making the site a potential locus for gold and base metal mineralisation associated with hydrothermal activity in the overlying country rock mass. Magmatic hosted platinum-nickel sulphide deposits are deeper targets.

A site visit was completed in September and official approval to carry out a Stage 1, four hole core drilling programme was obtained during the quarter. The drilling has been designed to locate any indications of intrusion related gold-copper mineralisation and indicative alteration in the column of basement rocks that overlies the inferred intrusive mass. As for Mundaerno, the drilling programme is to be carried out by new joint venture partner **Australian Mineral and Waterwell Drilling Pty Ltd**. Positive results will validate the conceptual model and provide the stimulus for accelerated exploration of the project area.

NARRABURRA ZIRCONIUM – RARE EARTHS

EL 5629 and EL 6787 - 54 km²

(Capital Mining 100%)

At Narraburra the company is evaluating a bulk disseminated Rare Metals (principally zirconium) and Rare Earths prospect for which a JORC Inferred resource of **55 million tonnes at a grade of 1000 g/t zirconium oxide, 60 g/t yttrium oxide, 300 g/t rare earth oxides, 80 g/t niobium oxide and 50 g/t thorium oxide** has been estimated. Results to date have shown that there is a good correlation between drill grades and bulk sample grades and that acceptable recoveries for a range of metal oxide components including zirconium, niobium, lithium and thorium could be achieved by using a combination of conventional treatment methods.

During the reporting period the company's stock of drill chip retention samples was analysed for lithium to provide baseline data on its distribution in the identified resource. The work was commissioned in response to industry predictions of a growth in demand for lithium as a major component in lightweight batteries for a new generation of motor vehicles.

Assay values peaked at 231 grammes per tonne lithium (i.e 497 g/t lithium oxide) in GRC003 near the centre of the deposit and generally increased going down hole from leached bedrock near the surface to less weathered material near the base of the hole.

NARRABURRA PROJECT (continued)

Best intersections within the currently defined resource boundary included:

- ❖ ***12m @ 188 ppm lithium from 36-48m (eoh) in hole GRC003;***
- ❖ ***28m @ 133 ppm lithium from 8-36m (eoh) in hole GRC004; and***
- ❖ ***16m @ 122 ppm lithium from 24-40m (eoh) in hole GRC002.***

In the context of the Narraburra deposit as a whole, which contains a wide array of Rare Metals and Rare Earth Elements, results indicate that lithium could also be present in commercially significant amounts.

Preliminary metallurgical tests on bulk sample material from the deposit have shown that 99% of the lithium can be recovered using sulphidation and/or chlorination extraction techniques (see ASX announcement of 29 March 2010 on metallurgical test results).

COWARRA - GOLD

***EL 5939 – 28 km² - Bredbo, NSW
(Capital Mining 100%)***

Exploration at Cowarra is for shear zone hosted **gold-sulphide deposits** in highly deformed metasedimentary rocks. The tenement covers numerous old mine workings dating back to the 1850's and there has been significant historic gold production at relatively high grades of around 8g/t gold in the 1940's and between 5 and 13g/t in the 1980's. The mineralisation is open along strike and at depth, un-mined ore is present in some shoots and there are numerous areas within the field that are underexplored. A shallow, potentially open pit mineable resource of **500,000 tonnes at a grade of 2.3 g/t gold and containing 37,000 ounces of gold** in the JORC Inferred category has been estimated from previous drilling results and the search for additional mineralisation suitable for extraction by underground mining is continuing.

Positive results were obtained from a programme of soil sampling at the **Firestone Ridge Prospect** during the quarter where a 750m long target zone defined by geological mapping and rock chip sampling is under evaluation. The samples were collected to close off anomalies detected by a previous soil geochemical survey in the nineties and as such the array was offset from the known lines of indicative mineralisation and alteration. Nevertheless, values peaked at 0.118 g/t gold in the dataset and results suggest that vein style mineralisation is present over a wider area than previously recognised.

Drill testing at Firestone Ridge and other targets at the Cowarra mine to the north is being planned.

MAYFIELD - GOLD - COPPER - BASE METALS

***EL 6358 – 49.4 km² - Mayfield, NSW
(Capital 51% ; Forge Resources Ltd 46.5% - contributing)***

The principal targets within the Mayfield project area, which is strategically located near Braidwood in the Southern Divide Region of NSW, are gold and copper bearing skarn and disseminated and vein style gold deposits in granitic host rocks. A JORC Inferred resource of **4.0 million tonnes at 0.4% copper, 0.6 g/t gold and 8.4 g/t silver** containing 16,000 tonnes of copper, 77,000 ounces of gold and 1.2 million ounces of silver has been established at the **Mayfield Prospect** (see CMY - ASX release 28th September 2009) and a number of very promising gold, base metal and iron skarn deposits are

MAYFIELD - GOLD - COPPER - BASE METALS (continued)

under evaluation in the tenement. Capital is managing exploration in joint venture with **Forge Resources Ltd** ("Forge") and Forge is contributing *pro rata* to the programme.

Reconnaissance mapping and field reviews were completed during the reporting period. Approval has been obtained to carry out a reverse circulation (RC) drilling programme to drill the Mayfield resource at higher density and to locate any additional mineralisation that may be present along the target horizon. Exploration is continuing.

CHAKOLA - GOLD & BASE METALS

EL 5697 - 66.4 km²; MLA 269 - 332 hectares – Cooma, NSW
(Capital Mining 100%)

Exploration at Chakola is for gold, copper, silver, lead and zinc sulphide deposits in altered volcanic host rocks. Work is centred on the **Harnett gold and base metals prospect** where a JORC resource currently estimated at **1.2 Mt @ 0.8 g/t gold, 0.5% copper, 8.1 g/t silver and 1.1% lead plus zinc** containing some 30,800 oz gold, 6,000 t copper and 310,000 oz silver has been identified (see Capital Mining Annual Report of 2008 for full details). A proposal to develop a shallow open cut mine on the deposit has been drawn up and a Development Application is under assessment.

There were no significant developments to report during the quarter in which preparations were made for block modelling of the Harnett resource ahead of an update of the resource estimate and sampling of drill cuttings to provide information for environmental studies was completed.

PORTERS MOUNT - GOLD-COPPER-MOLYBDENUM

EL 6591 - 65.7 km² – Grenfell, NSW
(Capital Mining 100%)

The mineral system associated with a large diatreme breccia and intrusive complex at Porters Mount is located in a porphyry copper-gold province close to a world-class producing gold mine. Ferruginous gold-bearing veins have been intersected over an extensive depth range in different parts of the prospect and indicative quartz-sericite and magnetite-biotite hydrothermal alteration has been recently intersected in shallow aircore holes. Technically, there is little difference between the Porters Mount system and the older systems that are the focus of an intensive exploration effort elsewhere in the region. The company is seeking to drill a significant intercept of gold-copper mineralisation and efforts to attract a joint venture partner to help unlock the perceived potential are continuing.

Analysis of results of the drilling programme completed in the previous quarter continued through the reporting period and follow up drilling is being planned. Third party data reviews are in progress and exploration is continuing.

CRAIGIE - ALLUVIAL GOLD

EL 5654 - 29.5 km² - Craigie, NSW
(Capital Mining 100%)

Capital has identified alluvial gold resources within the historic Craigie Goldfield and is aiming to establish reserves for a low-cost mining operation. There were no developments to report during the quarter.

TENEMENTS - Changes of Interest for the Quarter

Status	Tenements	Location	Percentage Interest
Acquired	Nil		
Surrendered or cancelled	EL 3881	Coonalpyn, SA	100%

For further information please visit the Company's website or contact the management team.

Dated: 28 October 2010

Dr Rick Hine
Capital Mining Limited
P.O. Box 3770, Weston Creek, ACT, 2611 Australia
Web: www.capitalmining.com.au
Phone: 02 6288 2661

The information in the report to which this statement is attached that relates to Exploration Results and Mineral Resources is based on information compiled by Richard Hine who is a Member of the Australasian Institute of Mining and Metallurgy. Richard Hine is a Director of the Company and 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". Richard Hine 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, 01/06/10.

Name of entity

Capital Mining Limited

ABN

69 104 551 171

Quarter ended ("current quarter")

30 September 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter 30 September 2010 \$A'000	Year to date (3 months) 30 September 2010 \$A'000
1.1 Receipts from product sales and related debtors	0	0
1.2 Payments for (a) exploration & evaluation	(127)	(127)
(b) development	0	0
(c) production	0	0
(d) administration	(69)	(69)
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	11	11
1.5 Interest and other costs of finance paid	0	0
1.6 Income taxes paid	0	0
1.7 Other – tenement security deposits	0	9
Net Operating Cash Flows	(185)	(185)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	0	0
(b) equity investments	0	0
(c) other fixed assets	0	0
1.9 Proceeds from sale of: (a) prospects	0	0
(b) equity investments	0	0
(c) other fixed assets	62	62
1.10 Loans to other entities	0	0
1.11 Loans repaid by other entities	0	0
1.12 Other (provide details if material)	0	0
Net investing cash flows	62	62
1.13 Total operating and investing cash flows (carried forward)	(123)	(123)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(123)	(123)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	0	0
1.15	Proceeds from sale of forfeited shares	0	0
1.16	Proceeds from borrowings	0	0
1.17	Repayment of borrowings	0	0
1.18	Dividends paid	0	0
1.19	Other – share issue costs	0	0
	Net financing cash flows	0	0
	Net increase (decrease) in cash held	(123)	(123)
1.20	Cash at beginning of quarter/year to date	533	533
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	410	410

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	100
1.24	Aggregate amount of loans to the parties included in item 1.10	0

1.25 Explanation necessary for an understanding of the transactions

1.23 – Consulting fees and reimbursement of expenses paid to entities associated with Directors

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

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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	0	0
3.2	Credit standby arrangements	0	0

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	100
4.2	Development	0
4.3	Production	0
4.4	Administration	50
Total		150

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	410	229
5.2 Deposits at call	0	304
5.3 Bank overdraft	0	0
5.4 Other (provide details)	0	0
Total: cash at end of quarter (item 1.22)	410	533

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	EL 3881	Tenement relinquished	100% 0%
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) (cents)	Amount paid up per security (see note 3) (cents)
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	68,187,489	68,187,489	Fully Paid	Fully Paid
7.4 Changes during quarter (a) Increases through issues (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>			<i>Exercise price (cents)</i>	<i>Expiry date</i>
	250,000	0	18.5	22 Mar 2012
	250,000	0	23.5	22 Mar 2012
	14,302,897	14,302,897	20	18 Oct 2010
	12,785,166	12,785,166	8	1 Jul 2011
	3,000,000	0	4	1 Sep 2014
	2,000,000	0	6	1 Sep 2014
	1,500,000	0	8	1 Sep 2014
7.8 Issued during quarter			<i>Exercise price (cents)</i>	<i>Expiry date</i>
	3,000,000	0	4	1 Sep 2014
	2,000,000	0	6	1 Sep 2014
	1,500,000	0	8	1 Sep 2014
7.9 Exercised during quarter	0			
7.10 Expired during quarter	0			
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <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 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~~/Company Secretary)

Date: 28 October.2010

Print name: JOHN KEPP0

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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+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Schedule of Tenements as at 28 October 2010

Tenement Name	Number	Interest	Comment
New South Wales			
Porters Mount	EL 6591	100%	
Cowarra	EL 5939	100%	
Narraburra	EL 5629 and EL 6787	100%	
Mayfield	EL 6358	51%	
Milparinka	EL 6832	100%	
Chakola	EL 5697	100%	
Chakola	MLA 269	100%	Application
Craigie	EL 5654	100%	
South Australia			
Mundearno South	EL 3853	100%	

EL = exploration licence

ELA = exploration licence application

MLA = mining lease application

EPM = exploration permit

EPMA = exploration permit application

+ See chapter 19 for defined terms.