



REVIEW OF OPERATIONS

Quarter Ended 30 September 2006

During the quarter Capitol Health continued its investment in the management infrastructure important to the effective integration of recent dental acquisitions.

Ms Nicole Smith was appointed the Company's Operations Manager during the quarter. Ms Smith has broad operational and management experience in the healthcare sector. Before joining Capitol Health, she was the head of a private hospital with responsibility for day to day operations, acquisition of new locations and marketing hospital services to the medical fraternity. She was also a member of that organisation's National Medical Advisory Team. Ms Smith is also a regular presenter at University, AMA and industry conferences. She is responsible for the coordination of all management and administrative services for Capitol Health's dental practices and in particular, the integration of newly acquired practices.

During the quarter, the Company contracted to acquire Kalamunda Dental Care, a practice with annual revenue in the 2006 financial year of over \$930,000. Settlement of this acquisition was achieved in October 2006 and therefore, its trading results have not been included in the September Quarter's cashflow report. As a result of this acquisition, Capitol Health is pleased to welcome Dr Robert Davis to its clinical team. Dr Davis is a senior dentist who qualified in 1966. After acquiring a higher degree in prosthodontics, Dr Davis established his Kalamunda practice in 1978. He has been on the teaching staff of two major universities where he provided clinical instruction to final year students.

The September quarterly cashflow report reflects the settling down period of the Group's recent acquisition of the Booragoon Dental Centre and Banksia Dental Care. In consultation with the clinical staff of each practice, the Group has also implemented a number of management initiatives, targeted to improve efficiencies and management practices that will translate into better services to patients and their welfare.

During the September quarter, which is the first full quarter of operations since its listing on ASX in June 2006, the Company generated revenue of \$248,000 (not including any revenue from Kalamunda). The Group's costs of operations were higher than expected due to non-recurring office setup and recruitment costs. Kalamunda commenced generating revenue for Capitol Health during October.

The Company continues to receive enquiries in relation to possible acquisitions. It is presently reviewing a number of financing strategies to continue to target revenue growth through acquisition.

Authorised by:

Andrew Harrison
Managing Director

About Capitol Health Limited

Capitol Health Limited is an Australian listed company (ASX:CAJ) providing excellence in services and facilities to dentists. The Company's objective is to build a leading dental healthcare business generating sustainable growth and profitability for our shareholders and delivering superior patient experiences at our dental centres. Visit our website www.capitolhealth.com.au

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

CAPITOL HEALTH LIMITED

ABN

84 117 391 812

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 (3 months) \$A'000
1.1 Receipts from customers	235	235
1.2 Payments for		
(a) staff costs	(144)	(144)
(b) advertising and marketing	(16)	(16)
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital*	(245)	(245)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	13	13
1.5 Interest and other costs of finance paid	(22)	(22)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net operating cash flows	(179)	(179)

*including once off cost of establishing corporate office and recruitment costs of operational staff since the Company's listing on 7 June 2006.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(179)	(179)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(68)	(68)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	(68)	(68)
1.14 Total operating and investing cash flows	(247)	(247)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	32	32
1.18 Repayment of borrowings and costs	(15)	(15)
1.19 Dividends paid	-	-
1.20 Other (share issue costs)	(127)	(127)
Net financing cash flows	(110)	(110)
Net increase (decrease) in cash held	(357)	(357)
1.21 Cash at beginning of quarter/year to date	1,830	1,830
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	1,473	1,473

+ See chapter 19 for defined terms.

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								
1.24	Aggregate amount of payments to the parties included in item 1.2	(109)								
1.25	Aggregate amount of loans to the parties included in item 1.11	-								
1.26	Explanation necessary for an understanding of the transactions									
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Executive Directors' remuneration</td> <td style="text-align: right; padding: 2px;">(35)</td> </tr> <tr> <td style="padding: 2px;">Non-Executive Directors' remuneration</td> <td style="text-align: right; padding: 2px;">(5)</td> </tr> <tr> <td style="padding: 2px;">Fees paid to director related entities for services</td> <td style="text-align: right; padding: 2px;">(27)</td> </tr> <tr> <td style="padding: 2px;">#Fees paid to director related entities for dental services</td> <td style="text-align: right; padding: 2px;">(42)</td> </tr> </table>	Executive Directors' remuneration	(35)	Non-Executive Directors' remuneration	(5)	Fees paid to director related entities for services	(27)	#Fees paid to director related entities for dental services	(42)	
Executive Directors' remuneration	(35)									
Non-Executive Directors' remuneration	(5)									
Fees paid to director related entities for services	(27)									
#Fees paid to director related entities for dental services	(42)									

* All amounts paid to parties in 1.24 relate to a four month period from June to September 2006.

Relates to amounts paid to Dr Fine for full time dental services as principal dentist at Booragoon Dental Clinic

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

N/A

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	845,000	830,000
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

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
4.1	Cash on hand and at bank	973	1,330
4.2	Deposits	500	500
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		1,473	1,830

Acquisitions and disposals of business entities

		Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	N/A	N/A
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: **31 October 2006**
(Managing Director)

Print name: **Andrew Harrison**

+ See chapter 19 for defined terms.

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 definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **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.

+ See chapter 19 for defined terms.