

# QUARTERLY ACTIVITIES & CASHFLOW REPORT

ASX Release – 31 January 2011



## CORPORATE

- Change of Company name to MHM Metals Limited
- \$12 million capital raising to fund global expansion of aluminium division and working capital

## AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

- Gross Quarterly Cash Receipts of \$836,000
- Gross Quarterly Operating Cash Surplus of \$238,000
- Lower throughput in the quarter due to plant modifications. These are now completed. Modifications included aluminium oxide (NMP) treatment technology in anticipation of aluminium oxide sale contracts that will generate additional revenues
- Operations at MHM facility proceeding very satisfactorily. Construction of salt evaporation ponds final step to closed-loop processing
- MHM has concluded cultural heritage study fieldwork on salt ponds. Approval of study last remaining hurdle before salt pond construction.
- MHM has an alternate location for salt ponds that would not require a cultural heritage study. Council approval process for this second location also well advanced, advertising due to conclude on 9 February
- Salt ponds will be interim measure with more advanced system of salt crystallisation also planned

## US ALUMINIUM OPERATIONS UPDATE

- Agreement with Smelter Service Corporation (SSC) to conduct a joint feasibility for salt slag processing
- SSC produces approximately 90,000 tonnes of salt slag per annum and has a 350,000 tonne single purpose (mono-fill) salt slag landfill that may be suitable for reprocessing
- MHM executives conducted meetings in the US with SSC and Alcoa Inc with a view to commencing construction of the first closed-loop salt slag processing facility in the US by mid-2011
- Executive Director Ben Mead has relocated to the US to drive forward the Company's expansion

## SILICA PROJECT UPDATE

- Drilling program over Cape Sorell being planned and drill rigs being sought
- Continued negotiation for offtake, additional enquiries for both lump silica and silica flour
- Testing of additional samples provided to prospective offtake partners. Positive results so far

## TASMANIAN EXPLORATION UPDATE

- Ground-truthing and verification of High Priority VTEM anomalies on prospective copper, gold, lead and zinc. Soil sampling results being evaluated
- Analysis of historic drilling at Thomas Creek (porphyry copper) and Hill-99 (gold-zinc-lead) prospects reveal striking similarities with other significant deposits in the region

## AFRICAN GOLD PROJECT UPDATE

- MHM has requested and been granted an extension of the agreement with African Eagle

## CORPORATE DETAIL

**ASX Codes:**  
MHM, MHMO

**Issued Capital:**  
101.2M Ordinary Shares  
26.5M Listed Options

**Substantial Shareholders:**  
Rogers Southern PL 10.4%  
Directors 12.7%  
Top Twenty 30.3%

**Directors:**  
Chairman  
Basil Conti FCA, FCIS, FTIA

Managing Director  
Frank Rogers

Executive Director  
Ben Mead B.Econ

Non-Executive Director  
Dr Neil Allen B.Sc, PhD

**Contact:**  
PO Box 21  
KINGSTON TAS 7050  
T: +61 (0)3 6229 9955  
F: +61 (0)3 6229 8430  
W: [www.mhmmetals.com](http://www.mhmmetals.com)  
E: [info@mhmmetals.com](mailto:info@mhmmetals.com)

ABN: 41 124 212 175

For personal use only

## CORPORATE

During the quarter the Company changed its name from Macquarie Harbour Mining Limited to MHM Metals Limited. The ASX code remains MHM. The new name more accurately reflects the MHM business, particularly the fast-growing aluminium operations.

A private placement of shares to new and existing sophisticated investors occurred during the quarter raising \$12 million at \$1.00 per share. The funds will be used to expand MHM's aluminium business into the United States and for working capital. The placement is under the ASX Listing Rule 7.1 which allows the issue of up to 15% new securities without shareholder approval in any 12-month period. The placement was subsequently ratified by shareholders at the Company's AGM.

Director Peter Robertson resigned from the Company during the quarter for personal reasons. MHM thanks Mr Robertson for his contributions. Mr Robertson remains involved with the Company as a provider of the aluminium salt slag treatment technology, for which MHM has contracted exclusive global rights.

## AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

MHM's Australian aluminium operations delivered Gross Quarterly Cash Receipts of \$836,000 with a Gross Quarterly Operating Surplus of \$238,000. The business continues to deliver profits and has done so since commencement of operations in January 2010. Profits are expected to increase substantially once the technology upgrade has been finalised.

Plant throughput was lower than anticipated due to modifications that prevented full capacity operation of the Moolap facility. The changes incorporate aluminium oxide (NMP) treatment technology in anticipation of aluminium oxide sale contracts. These anticipated contracts will generate additional revenue for MHM.

MHM is completing negotiations for an ongoing processing agreement with Sims Aluminium Pty Ltd and continues to receive material for processing from Sims under the terms of the initial contract.

To complete the closed-loop salt slag treatment MHM requires the use of evaporation ponds for an initial period to be followed by installation of an instant salt crystallisation system. This system will recover over 120 million litres of water each year from the Geelong operations. Instant salt crystallisation systems also enable MHM to establish salt slag processing facilities at sites where solar evaporation is not viable.

MHM is moving closer to council approval for evaporation ponds to be built adjacent to the Company's operations south of Geelong Victoria. Approval is being sought to construct the ponds on a nine-hectare property that has been leased to MHM by Alcoa for \$1 a year. MHM has also submitted an application on an alternative location upon which ponds can be built – a two-and-a-half hectare property owned by Frank Rogers (Managing Director of MHM) that shares a common boundary with the nine-hectare Alcoa property. Consultants have advised MHM that this alternate property would not need a Cultural Heritage Management Plan (CHMP) and community advertising on this property is underway and due to conclude on 9 February.

Alreco Pty Ltd, MHM's wholly-owned operating subsidiary for the Australian operations, submitted an initial application for evaporation pond approval in June 2010. The process has been delayed because the council gave conflicting advice about the need for a CHMP. A CHMP is a study to assess and manage cultural heritage values.

The application for evaporation pond approval on the original site was advertised to the community without objection. The Company has now been given new advice from the council that a CHMP is required. Alreco has concluded the CHMP and it is being considered by the relevant authorities.

MHM's operations at Moolap are proceeding to high levels of satisfaction, but will be improved further when salt ponds are constructed. It is important that shareholders note that the delay in approval is unrelated to the viability of the salt slag processing technology. Large sections of the upgraded processing plant in Geelong have been commissioned and these operations have exceeded expectations.

For personal use only

## US ALUMINIUM OPERATIONS UPDATE

During the quarter MHM announced an agreement with Smelter Service Corporation (SSC) to conduct a joint feasibility for salt slag processing in the United States. SSC produces approximately 90,000 tonnes of salt slag per annum and has a 350,000 tonne single purpose (mono-fill) salt slag landfill that may be suitable for reprocessing.

MHM executives conducted meetings in the United States with SSC and Alcoa Inc with a view to commencing construction of the first closed-loop salt slag processing facility in the US by mid-2011. Meetings have also been held with Tennessee state and local government officials and the responses to MHM's technology have been overwhelmingly positive.

Executive Director Ben Mead has relocated to the US to drive forward the Company's expansion. To commence construction in mid-2011 the company will need to address:

- Permitting
- Site determination
- Supply contracts
- Additional salt slag feedstock from other sources
- SSC landfill test work and due diligence
- Other landfill identification, test work and due diligence
- Government grants and concessions
- Staff and training
- Other matters as required

Mr Mead has reported that activities in the US are progressing well on all fronts.

## SILICA PROJECT UPDATE

MHM has now received sufficient enquiry for offtake that a drilling program over the Cape Sorell Project Area is warranted. The program is in the preliminary stages of planning with drill rigs being sought.

MHM continues negotiation for offtake and has received enquiries for tonnage with price to be finalised. The Company has also received additional enquiries for both lump silica and silica flour.

Testing of additional samples provided to possible offtake partners provides positive results.

MHM remains highly engaged to this project and is expecting positive outcomes from its silica division.

## TASMANIAN EXPLORATION UPDATE

During the quarter the exploration team concentrated on ground-truthing and soil sampling of high priority VTEM anomalies on several highly prospective copper, gold, lead and zinc targets in western Tasmania. These priority targets include the Birthday Bay, North Butler and Noddy Creek project areas. A total of 157 samples were collected and sent for analysis. Preliminary results are being assessed.

A research/laboratory-based study has begun to characterise and understand the environment of formation of the different mineralised targets within the MHM tenements.

Review of the old drill holes at the Thomas Creek porphyry copper prospect indicates that there was strong hydrothermal activity in this system derived from an as yet undefined source deeper down. Moreover, the age of intrusions from Thomas Creek returned similar ages to Mt Lyell (copper-gold) mineralisation further to the north.

The rock sequence from Hill 99 gold, zinc, lead prospect show striking similarities to those rock units which host the major zinc, lead, silver mines in Western Tasmania – Hellyer, Que River, Roseberry and Hercules. Analysis is ongoing. Rock and mineral samples are being prepared for analysis to compare the signatures of these prospects to other deposits in the region.

For personal use only

## AFRICAN GOLD PROJECT UPDATE

MHM has requested and been granted an extension of the agreement with African Eagle and will endeavour to provide the market with a further update in the near future.

### Further information:

Simon Wells, General Manager  
+61 (0)3 6229 9955  
[www.mhmmetals.com](http://www.mhmmetals.com)

Rudi Michelson  
Monsoon Communications  
+61 (0)3 9620 3333

For personal use only

## 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

**MHM Metals Limited**

ABN

**41 124 212 175**

Quarter ended ("current quarter")

**31 December 2010**

#### 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		
(i) Exploration activities	-	-
(ii) Aluminium processing activities	836	2,513
1.2 Payments for		
(a) exploration & evaluation	(264)	(464)
(b) development	(67)	(67)
(c) production		
(i) Aluminium processing activities	(598)	(1,260)
(d) administration	(498)	(789)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	25	45
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(566)</b>	<b>(22)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets		
(i) Exploration activities	(71)	(72)
(ii) Aluminium processing activities	(999)	(2,234)
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)	-	-
<b>Net investing cash flows</b>	<b>(1,070)</b>	<b>(2,306)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,636)</b>	<b>(2,328)</b>

+ See chapter 19 for defined terms.

For personal use only

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

1.13	Total operating and investing cash flows (brought forward)	(1,636)	(2,328)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	11,782	11,782
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(5)	(11)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	<b>11,777</b>	<b>11,771</b>
	<b>Net increase (decrease) in cash held</b>	<b>10,141</b>	<b>9,443</b>
1.20	Cash at beginning of quarter/year to date	1,590	2,288
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>11,731</b>	<b>11,731</b>

**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	544
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

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

**Financing facilities available**

+ See chapter 19 for defined terms.

For personal use only

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

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	(406)
4.2 Development	(194)
4.3 Production	(521)
4.4 Administration	(600)
<b>Total</b>	<b>(1,721)</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	11,731	1,590
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>11,731</b>	<b>1,590</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.

For personal use only

**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 <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>	101,181,910	101,181,910		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	12,000,000	12,000,000		
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>	28,642,485 1,100,000 1,000,000 450,000 1,900,000 100,000 300,000	26,511,260 - - - - - -	<i>Exercise price</i> 20 cents 20 cents 20 cents 25 cents 28 cents 28 cents 85 cents	<i>Expiry date</i> 31 August 2012 28 November 2013 14 December 2013 9 October 2014 30 November 2014 4 January 2015 6 October 2015
7.8 Issued during quarter	300,000	-	-	-
7.9 Exercised during quarter	(1,643,650)	(944,125)	-	-
7.10 Expired during quarter	-	-		
7.11 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

For personal use only



7.12	Unsecured notes (totals only)		
------	-------------------------------	--	--

### 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 ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  ..... Date: 31 January 2011  
(Director/Company secretary)

Print name: Richard Rybak

### 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.

=====

+ See chapter 19 for defined terms.

For personal use only