

# QUARTERLY ACTIVITIES REPORT

ASX Release – 29 July 2011



## CORPORATE

- Cash on hand \$9.021 million at 30 June 2011

## AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

- Gross Quarterly Cash Receipts of \$1,133,000
- Gross Quarterly Operating Cash Surplus of \$46,851 with trade receivables of \$1.2 million at 30 June
- Closed-loop salt slag operations underway
- Landfill mining to commence once current stockpile of partly-processed salt slag reduced
- First shipment of AL80 awaiting departure
- Salt crystalliser under construction
- Engagement with Federal Government regarding carbon tax benefits for MHM's recycling operations

## US ALUMINIUM OPERATIONS UPDATE

- MHM progressing with expansion into the US, targeting commencement of operations in 2012
- Processing throughput for the first plant expected to be 200,000 to 250,000 tonnes per annum
- Appointment of Senior US Executive – Director of Operations, North America
- Salt slag supply contract discussions well advanced
- Engagement with parties showing interest in supplying a second salt slag recycling facility
- Decision for location of first US salt slag plant is imminent
- Testing program of 350,000 salt slag mono-fill completed, awaiting feedback from Government regarding reprocessing
- Permitting and engineering consultants have commenced project planning activities
- Positive meetings with senior government officials for project support, incentives and concessions
- Preliminary discussions with parties regarding non-dilutionary financing mechanisms

## SILICA PROJECT UPDATE

- Drilling program over Cape Sorell completed, awaiting assays
- Continued negotiation for offtake, silicon smelter discussions positive and ongoing

## TASMANIAN EXPLORATION UPDATE

- Highly encouraging first-stage drilling at Hill 99 VHMS copper-gold project
- Assays expected by end of August 2011
- Drill core studies showing stratigraphy, alteration and age of the rocks at Hill 99 comparable with Hellier-Fosse-Roseberry group of mines further to the north.

**ASX Codes:**  
MHM, MHMO

**Issued Capital:**  
102.3M Ordinary Shares  
25.5M Listed Options

**Substantial Shareholders:**  
Rogers Southern PL 10%  
Directors 13%  
Top Twenty 21%

**Directors:**  
Chairman – Basil Conti

Managing Director – Frank Rogers

Executive Director – Ben Mead

Executive Director – Simon Wells

Non-Exec Director – Dr Neil Allen

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## CORPORATE

MHM Metals Limited has \$9.021 million cash on hand at 30 June 2011.

## AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

### Financial results

MHM's Australian aluminium subsidiary, Alreco Pty Ltd delivered Gross Quarterly Cash Receipts of \$1,133,000 million with a Gross Quarterly Operating Surplus of \$46,851. Alreco also had trade receivables of \$1.2 million at 30 June 2011.

### Closed-loop operations continuing

Closed-loop salt slag recycling operations have commenced. This is a significant milestone for the company, paving the way for the global expansion of the technology. Alreco's profits are expected to substantially increase once reprocessing of Alcoa's 160,000 tonne salt slag landfill commences. This will occur once the stockpile of partly-processed salt slag on MHM's site is reduced.

### First AL80 shipment

Alreco's first shipment of AL80, an aluminium oxide product, has been prepared and is awaiting departure. The first shipment is 800 tonnes and will be followed by monthly shipments of a minimum of 1,500 tonnes. Alreco's contract with Impex Minerals Pty Ltd provides no upper limit to the amount of AL80 that can be sold to Impex. During the quarter, Alreco also received additional enquiries for offtake of a substantial monthly tonnage of AL80 from another party.

Alreco's AL80 product is produced from aluminium oxide, one of the commodities recovered from salt slag recycling. Finding viable applications for aluminium oxide has been a major hurdle for salt slag processing. The aluminium industry unsuccessfully tried for a number of years to source a high value, high volume application for aluminium oxide. AL80 is produced when aluminium oxide recovered from Alreco's salt slag operations is value added using an additional proprietary process. Alreco's off take agreement for AL80 is an event of significance for the global aluminium industry and its importance should not be underestimated.

MHM believes there is opportunity for additional value-adding of the AL80, to be addressed in due course. This is a major milestone for the company as it completes MHM's closed-loop, landfill-free salt slag processing technology. MHM is seeking additional aluminium oxide for treatment with the company's proprietary process to produce AL80, to sell under the off take agreement with Impex Minerals.

### Salt crystalliser construction underway

Alreco has completed an order for a salt crystallisation system to be installed at Moolap. The system will recover substantial volumes of water as compared to Alreco's current system of solar evaporation. The crystalliser technology provider has indicated that the system will be operational by the end of December 2011.

### Potential Carbon Tax benefits to MHM

Alreco has commenced discussions with the Federal Government regarding potential benefits for salt slag recycling under the proposed carbon tax.

### Continuing to process material for Sims under original contract terms

An updated processing agreement for salt slag, non-salt slag, and aluminium dross with Sims Aluminium Pty Ltd has not yet been finalised. Alreco continues to receive material from Sims under the terms of the initial contract.

## US ALUMINIUM OPERATIONS UPDATE

MHM's expansion into the United States continues to advance. The Company is extremely confident of establishing salt slag recycling operations in Tennessee, and will commence construction-related activities following finalisation of salt slag supply contracts and land acquisition. It is expected that this first plant will have a throughput of 200,000 to 250,000 tonnes per annum, representing an estimated 20-25% of the salt slag produced by the entire US aluminium industry. It is understood that an additional two to four salt slag recycling plants could be justified in the United States.

The establishment of closed-loop salt slag recycling operations in the United States will be an immensely positive development for the US aluminium industry, welcomed by industry stakeholders, government and community alike.

MHM is targeting commencement of operations during the second-half of 2012. The exact timeframe will depend on the time taken to finalise supply contracts and the specifics of the chosen plant site. MHM's permitting, engineering and construction management consultants have prepared a detailed timeline for construction and commissioning, the details of which will be made available once all variables have been resolved.

MHM has also recently engaged with aluminium companies that are showing keen interest to supply salt cake to a second salt slag recycling facility in a region to service the north-eastern United States and parts of Canada.

### **Appointment of Director of Operations, North America**

MHM Metals Corporation, the company's US operating subsidiary, has appointed a Director of Operations, North America. Mr John Pugh, formerly Vice President of Business Development and Vice President of Operations for Smelter Service Corporation, has been appointed to the role.

Mr Pugh is widely regarded as one of the leading operations executives in the US aluminium industry and will be a great asset for MHM. Smelter Service Corporation and MHM agreed that Mr Pugh's appointment to MHM is in the best interests of the ongoing cooperation between the companies. Mr Pugh holds a degree in business management and has 31 years management experience in the metals industries. This includes five years with a manganese alloy foundry and 26 years in secondary aluminium recycling, including 21 years with Smelter Service Corporation.

### **Salt slag supply contract negotiations**

MHM is advancing contract negotiations, with draft terms, conditions and pricing being circulated and finalised. MHM is hoping that the first of the contracts may be signed by the end of August 2011, and has recently hosted a number of potential US salt slag suppliers for site visits in Geelong.

### **Tennessee site acquisition due diligence**

MHM continues to progress due diligence for Tennessee site selection, and is well advanced in the process. Proximity to salt slag suppliers, zoning and permitting requirements, transportation options (road, rail) and government incentives are all important considerations in the selection of the site. It is anticipated that news regarding site acquisition should be forthcoming in the near future.

Site acquisition has taken a little longer than initially anticipated. In May and June, MHM conducted extensive due diligence, agreed a purchase price and finalized terms for a property purchase contract for an 80-acre site in Tennessee that showed great potential. However, sub-surface environmental assessment by MHM indicated that the site contained some geotechnical issues and consequently it was decided to seek alternatives. Whilst this has resulted in a longer than anticipated timeframe for site acquisition, the timing has not affected MHM's overall development timetable as salt slag supply contracts are still in the final stages of completion.

### **Government support**

MHM is positively engaged with the Tennessee state and local governments regarding concessions and incentives for salt slag recycling. MHM has general terms of a financial support package, however the final details will depend on site selection. A detailed overview of the incentives and concessions available to MHM will be provided after this time.

### **Smelter Service Corp landfill testing**

The first-stage testing program of Smelter Service Corporation's 350,000 tonne salt slag mono-fill has concluded. Whilst MHM does not believe that the entire landfill can be remediated, as with the Alcoa landfill in Geelong, there appears to be potential to recover material. The SSC mono-fill has some issues with soil and clay contamination of some finer portions of salt slag, and separation of the soils from aluminium oxides can be challenging.

MHM and SSC have approached the Tennessee Department of Environment and Conservation with a number of proposals for remediation, which are being considered.

## US investor relations roadshow

A number of meetings and presentations with US investors were held during the quarter, which were well received. Additional presentations are planned in due course, particularly following execution of US salt slag supply contracts and Tennessee land acquisition. As always, management efforts are best directed to achieving maximum return for effort and investment, and it is believed that the next US roadshow will be most effective following tangible contractual developments in the United States.

## SILICA PROJECT UPDATE

### High Purity Silica Drilling

MHM's first-phase diamond drilling at the Cape Sorell High Purity Silica Project has been completed. A total of six short holes intersected white quartzite over a thickness of approximately 12m based on visual appearance. The silica rich quartzite dips approximately 50° west, and drilling was designed to test the true thickness of the quartzite at the North Escarpment prospect and the potential for a more extensive silica cap over mixed sediments including sandstone and siltstone. Sampling and assaying of the drill core is continuing.

### Offtake Negotiation

MHM continues to work with a number of parties concerning offtake of lump silica and silica flour, both for export and for utilisation in a proposed Tasmanian silicon smelter.

## TASMANIAN EXPLORATION UPDATE

### Drilling of Hill 99 Copper-Lead-Zinc Prospect

The two-hole 369 metre diamond-drilling program at MHM's Hill 99 copper-lead-zinc prospect has completed, with preliminary inspection and sampling of the core by Niton XFR analyser showing highly encouraging levels of mineralisation. The target was for copper mineralisation with zinc and gold credits in either a structural or VHMS setting. The results to hand are extremely positive and the core is now being prepared for assay.

Hole H99-04 intersected strong quartz veining from 158m to 183m within highly altered intermediate and mafic volcanic rocks with disseminated chalcopyrite (copper sulphide) though parts of this section.

Hole H99-05 intersected strongly altered mafic volcanics throughout the hole. Intense quartz-carbonate veining is present from 118m to the end of the hole at 173m. Patchy, disseminated lead and zinc sulphides are associated with some of the veins. The intensity of the alteration and veining in both drill holes indicates that strong, mineralised hydrothermal systems have been intersected and will require follow up drilling.

Detailed studies on drill core from this and previous drill holes have shown that the stratigraphy, alteration and age of the rocks at Hill 99 are comparable with mineralised horizons at the Hellier-Fosse-Roseberry group of mines further to the north.

MHM's ongoing exploration is consistent with the company's strategy to continue to progress the mineral projects while assessing opportunities to engage with project development partners, divest or spin-off the mineral assets of the company at a time that maximises returns to shareholders.

## Further information:

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## JORC Compliance Statement

*Information in this report that relates to Exploration results, Mineral Resources or Ore Reserves is based on information compiled by Richard Lindsay (Exploration Manager for MHM) who is a member of the Australian Institute of Geoscientists. Richard Lindsay has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves". Richard Lindsay consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*