



EXPLORATION LICENCE
EL61/2007, EL62/2007, EL63/2007
SORELL PENINSULA REGION, WESTERN TASMANIA

COMBINED ANNUAL REPORT FOR THE YEAR ENDED
27 APRIL 2011

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1 EXECUTIVE SUMMARY

EL61/2007, EL62/2007 and EL63/2007 are separate licences in the Macquarie Harbour region in Western Tasmania which were granted on 27 April 2007. All three have common boundaries with other licences held by MHM Metals Limited. Prior to November 2010, MHM Metals Ltd., was formerly called Macquarie Harbour Mining Ltd., and has changed its name to more accurately reflect its core business, which is the recovery of aluminium from slag.

EL61/2007 and EL63/2007 lie in zones of meta-sedimentary Proterozoic rocks on the Sorell Peninsula while EL62/2007, which straddles Macquarie Harbour, covers a magnetic high which reflects a continuation of the prospective nickel-bearing ultramafic rocks northwards offshore.

Work during the fourth year of tenure has continued on a high purity silica resource near Cape Sorell on EL63/2007. The impetus for this programme has been due largely to the strong interest shown by a several companies in establishing a silicon metal operation in Tasmania.

Work conducted on EL63-2007 has comprised geological mapping, sampling and checking of the previous sample sites from Comalco's work in the 1970's. A drill program is programmed to begin at the end of the reporting period.

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2 INTRODUCTION

This is the third annual report on EL61/2007 (57 sq km), EL62/2007 (67 sq km) and EL63/2007 (80 sq km) which are held in the name of Goldstock Mining Pty Ltd, a wholly owned subsidiary of MHM Metals Ltd ("MHM"). EL61/2007 lies between EL21/2007 and EL22/2007 with the ocean along its south western boundary, EL63/2007 forms the northwest extremity of Cape Sorell Peninsula and EL62/2007 covers part of Macquarie Harbour between EL20/2007 to the north and EL's 21 & 22/2007 to the south (see Figure 1). The licences all fall within the South West Conservation Area and any exploration requires continual consultation with the relevant government authorities, particularly Mineral Resources Tasmania and Parks and Wildlife Services. Previous reports on these EL's have been under the name of Macquarie Harbour Mining Ltd., however the company changed its name in November 2010 to MHM Metals Ltd.

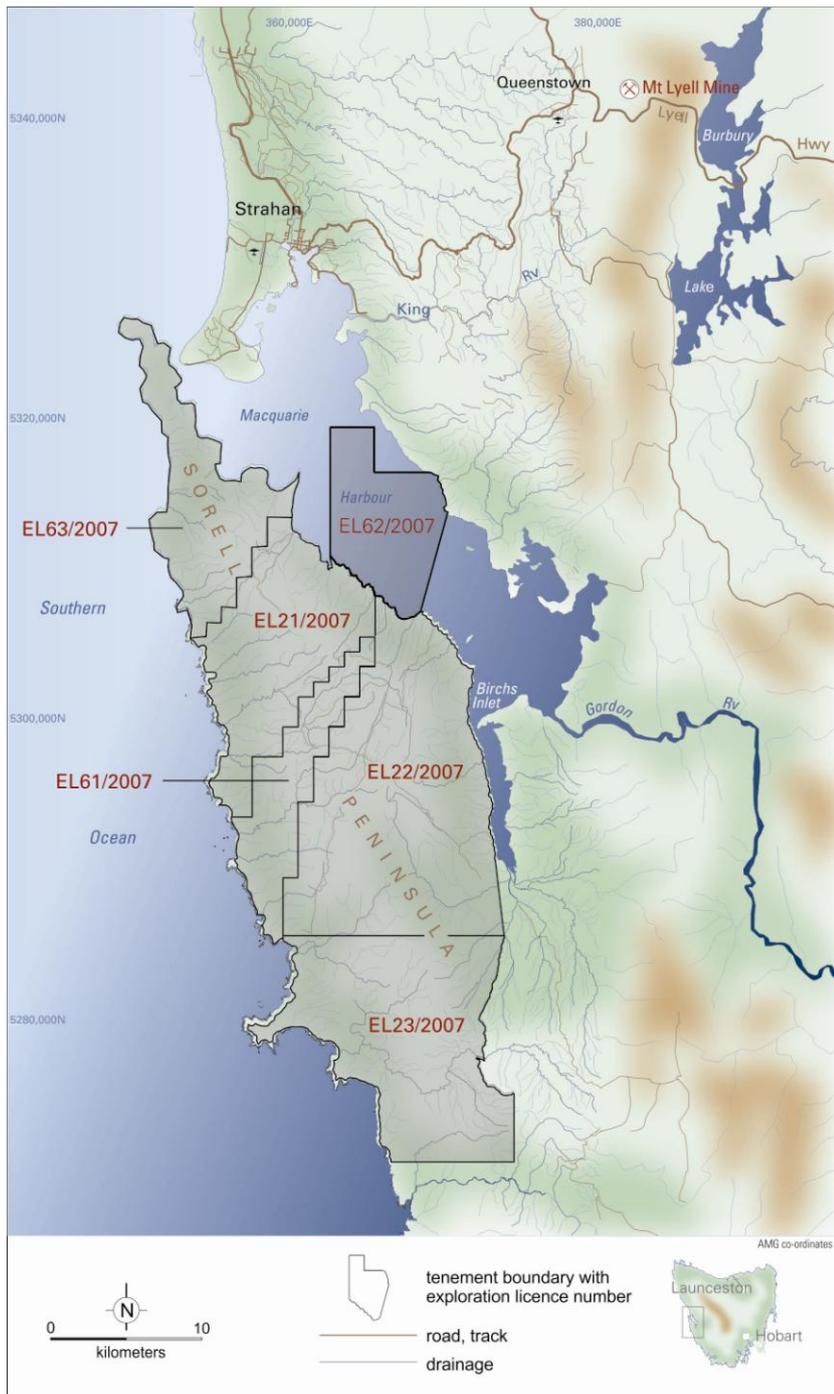


Figure 1. Location of EL's 61/2007,62/2007 and 63/2007

3 REGIONAL GEOLOGY

EL 61/2007 and EL63/2007 represent two areas of older rocks (Mesoproterozoic-Neoproterozoic) which form thrust boundaries with younger Neoproterozoic and Cambrian sequences. EL62/2007 has no geological outcrop but observation of airborne geophysical data indicates that the NNE trending magnetic high which reflects the Hibbs ultramafic belt (known to host nickel mineralisation) on the south side of Macquarie Harbour, continues to the north (see Figure 2). A simplified geological map of EL61/2007 and EL63/2007 is shown as Figure 3.

EL61/2007:

The principal geological unit within this licence is a metamorphosed turbidite sequence of interbedded quartzwacke and mudstone/siltstone considered to be of lower Neoproterozoic age. In the southwest of the tenement there are also metamorphosed impure dolomite-rich sequences of mudstone, siltstone and sandstone which correlate to the Oonah Formation. There are also minor early Cambrian gabbroic intrusions.

EL63/2007:

This licence covers metamorphic rocks of Mesoproterozoic age comprising a multiply-folded sequence of clean orthoquartzite beds with minor interbedded phyllitic siltstone and locally developed siliceous conglomerate lenses. Along its eastern boundary the quartzite sequence overlies Neoproterozoic rocks along a sub-horizontal thrust sheet.

The sequence shows at least three phases of deformation, the massive siliceous rocks behaving competently to form broad truncated folds while the phyllites and thin laminated quartzites are contorted with boudinage structures. The regional strike is north to northeast. Due to their resistance to weathering the massive quartzite beds form prominent outcrops and strike ridges. Quartzite scree often covers the softer eroded phyllites giving the false impression of the quartzite beds being thicker than in fact they are.

The quartzite varies in quality from pure (almost 100% SiO₂) to high clay and/or high iron where it is strongly crossbedded. The colour, hardness and quality of the quartzite is dependent on the nature and thickness of the bedding, percentage of silica, and the amount of clay and iron minerals present. High purity silica represents an important commodity of commercial interest to MHM.

Quaternary sand dunes have built up along the western coast of Cape Sorell peninsula and in the extreme northeast.

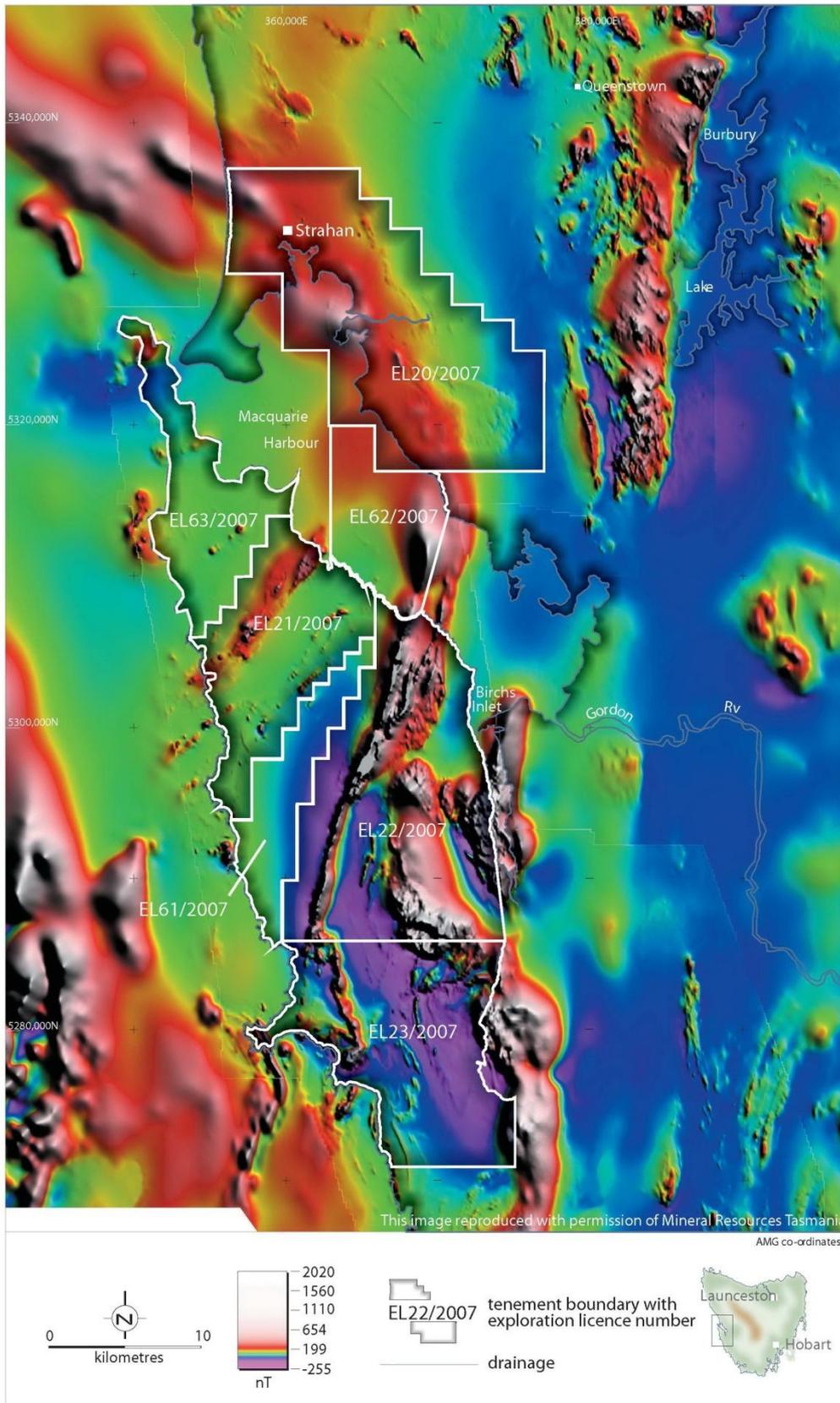


Figure 2. Magnetic Map of Macquarie Harbour area

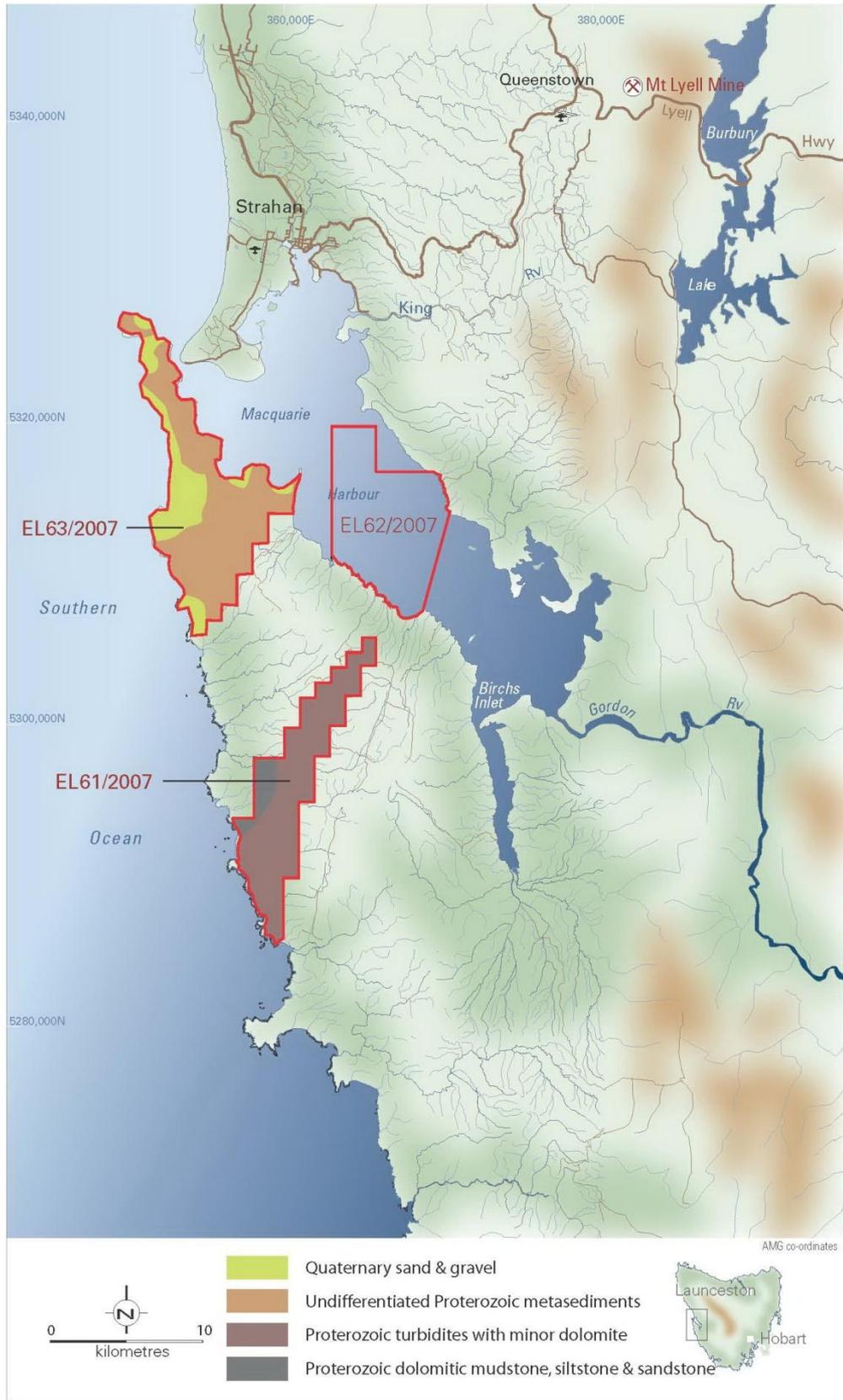


Figure 3. Generalised geology of the Cape Sorell Peninsula

4 REVIEW OF WORK BY PREVIOUS EXPLORERS

Modern exploration commenced south of Macquarie Harbour in the mid-1950's and has been carried out intermittently since then, led by a relatively small number of companies which have expended considerable time and effort in an area with no existing infrastructure and a climate which limits concerted field programmes to the warmer months. This work was directed mainly towards base and precious metals but regional airborne geophysics and geological mapping by Lyell – EZ Explorations (1956-1962) and BHP (1965-1972) were instrumental in providing a strong basis for the structural understanding of the area.

Because of the low prospectivity for metallic mineralisation in EL61/2007 and EL63/2007 there has been no ground based follow-up base or precious metals exploration over the area covered by these two licences. However considerable work has been carried out in the Cape Sorell area (EL63/2007) on high grade silica deposits within the quartzites by Comalco Ltd in the 1970's. This is considered a highly attractive target for MHM and the previous exploration is reviewed below.

Evaluation of Cape Sorell Silica 1970-1976:

In January 1971 EL1/71 was granted to Comalco. It covered the entire north western extremity of Cape Sorell Peninsula as far south as Sloop Point and the company's ultimate objective was to acquire reserves of quartzite suitable for producing silicon metal to alloy with aluminium.

Prominent quartzite outcrops in the area include Mount Antill, Mount Obvious and The Grandfathers. To the east of Mount Obvious is an abrupt change in topography referred to by Comalco as "North Escarpment". It is at these localities where most of Comalco's exploration was focussed.

A preliminary surface sampling programme was carried out during 1971 which indicated that the softer and finely bedded quartzite as well as the harder massively bedded quartzite was mostly of high SiO₂ content. This was followed up by five inclined diamond holes which were drilled by Associated Diamond Drillers during 1974 to test some of the quartzite outcrops at depth. Two of these drill holes were located in an area northwest of Mount Antill, one to the northwest of North Escarpment, and the remaining two in The Grandfathers area. Holes 1 (18.6m), 2 (20.4m) and 3 (24.7m) encountered only thin beds of quartzite with interbedded phyllite. Holes 4 (20.0m) and 4a (71.9m) at Grandfathers were drilled in quartzite however analysis of samples indicated these were just below "silicon grade" requirements.

During January 1975 Comalco applied for four 100 hectare Mineral Leases within EL1/71 but the following month these were converted to a Consolidated Lease 16M/75 which was formally granted in March 1975.

Over the 1974-75 field season an intensive costean sampling programme by drilling and blasting of the quartzite was accompanied by a topographical/geological mapping

programme to infer an adequate tonnage and grade so that plans could be made for a silicon smelter. The minimum inferred tonnage from Mount Antill, Mount Obvious and North Escarpment was 2.78 million tonnes, having an average grade of 99.13% SiO₂, 0.34% Al₂O₃ and 0.05% Fe₂O₃. North Escarpment alone was 0.80 million tonnes at 99.60% SiO₂, 0.07% Al₂O₃ and 0.01% Fe₂O₃. Ten diamond holes totalling 755m were recommended from the costeaning and mapping to raise the status of inferred to measured or proven. Note that these figures are prior to the introduction of the JORC reporting standards and for this reason should be considered as "pre-JORC estimates". The recommendation for drilling was never implemented "for various economic reasons" and eventually ML 16M/75 was relinquished.

5 PREVIOUS WORK BY MHM

Literature review and data compilation comprised a major part of the work carried out on these three tenements during 2008. A reconnaissance 3 day helicopter trip was also made by the company's Managing Director, Chief Geologist and Consulting Geologist to visit these and other MHM tenements in the area. This included 3 hours on the ground in the Mount Obvious/North Escarpment area of EL63/2007.

Most work was directed towards the high grade silica potential of EL63/2007 which has involved investigating the market demand for raw silica and silicon metal products, consideration of the environmental aspects of open pit mining on Cape Sorell, and infrastructure requirements. Strong interest in high purity (>99%SiO₂) "lump" quartzite was indicated at this early stage by large European and Asian companies wishing to expand into silicon metal production.

Late in 2008 planning was undertaken to facilitate a diamond drilling programme at North Escarpment (Figure 4) where the highest quality silica was delineated by Comalco Richardson, 2009). This was regarded as an essential step in establishing a JORC compliant resource/reserve by testing the continuity of grade at depth. With this in mind MHM engaged Coffey Mining to review drill planning in order to optimise the proposed programme. A Works Programme comprising thirteen inclined diamond drill holes for approximately 800m was proposed and submitted to Mineral Resources for approval. Another short reconnaissance visit was made to the area to check the topography and geology of the proposed drill collars and investigate possible camp sites. The drilling programme was approved and discussions with several drilling groups took place.

As a prerequisite for approval of the above Works Programme environmental and Aboriginal heritage requirements were investigated. Adam Marshall of Aboriginal Heritage Tasmania advised that no sites have previously been recorded over the area earmarked for drilling while Wildlife Consultant David James conducted a breeding season survey for Orange-bellied Parrot, Wedge-tailed Eagle, White-bellied Sea Eagle, Grey Goshawk and Masked Owl in December 2008. A summary of findings from this survey noted that no Orange-bellied Parrots or Grey Goshawks were detected, evidence of Masked Owl and Wedge-tailed Eagles was located but not breeding activity, and White-bellied Sea Eagles were detected and an active nest site located. It was recommended that specialist advice be sought from DPIW regarding helicopter flight paths and operating distances from nest locations prior to any field work commencement.

Unfortunately, the planned drill program did not go ahead due largely to the global financial crisis and the difficulties of capital raising. In 2009 limited outcrop sampling was undertaken with samples being sent to various downstream industry users for grade and decrepitation testing.

In 2009, ten bulk samples (approx 8kg each) at the North Escarpment were taken for this purpose and sent to laboratories owned by two large corporations (Richardson, 2010). Meanwhile, discussions with companies from Germany, the USA and Japan continued. As these discussions unfolded it became increasingly clear that a silica

deposit on its own located at Cape Sorell would unlikely to be economic on its own. This was largely because of the logistical difficulties of transporting the silica out of Macquarie Heads or alternatively barging across Macquarie Harbour to Strahan, road transporting product to the nearest rail head at Zeehan and then raiing it to a port for export.

As a result, other business cases were considered in early 2010. One such case is to construct a silicon smelter based in Tasmania that would accept the silica product from Cape Sorell. This business case has been the focus of discussion in 2010 with MHM Metals coordinating the enquiries of interested companies towards a possible feasibility study to build a silicon smelter in Tasmania.

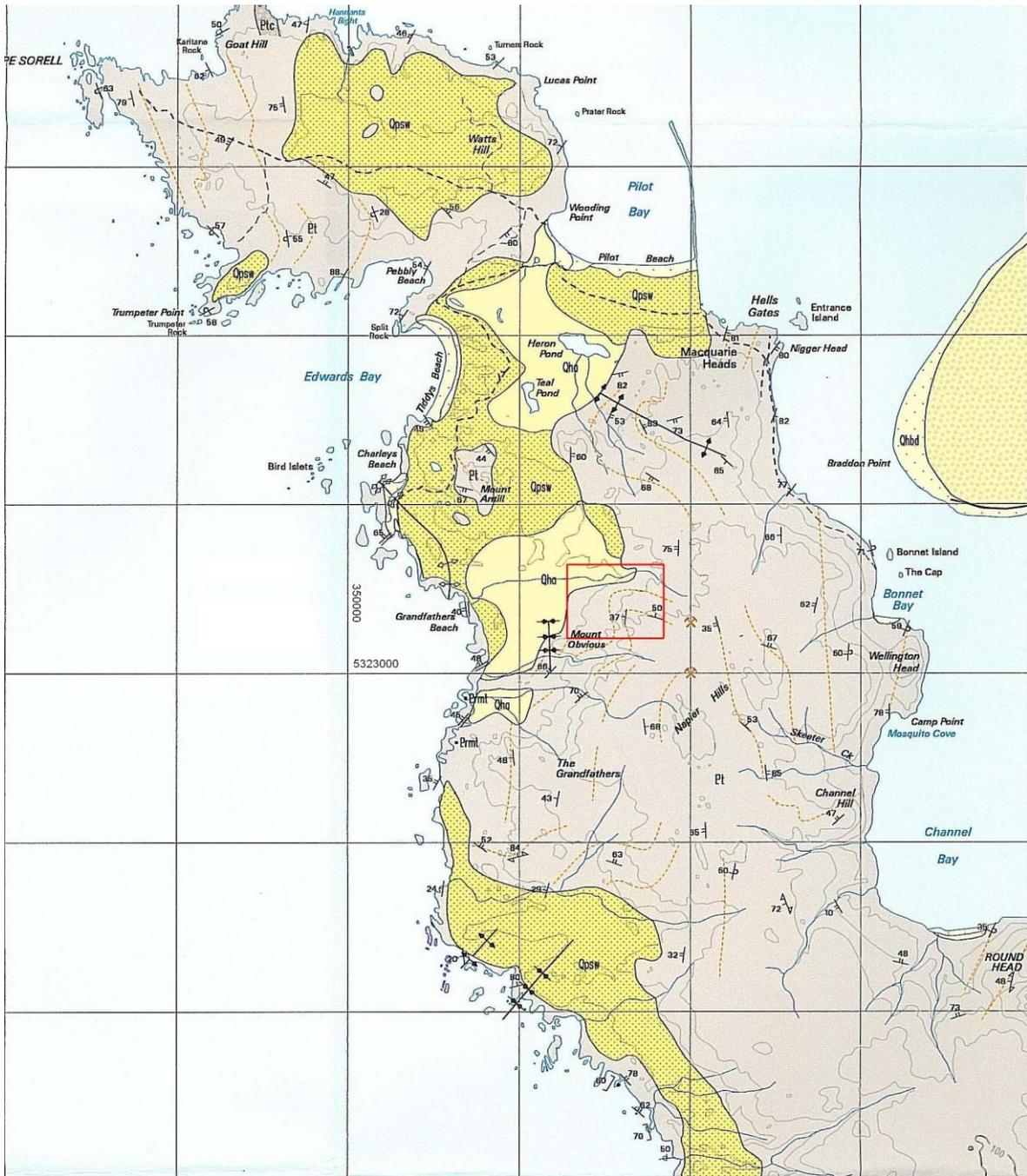


Figure 4. Geological map of Cape Sorell with North Escarpment area marked in red (1 km grid).

6 EXPLORATION COMPLETED DURING THE REPORT PERIOD

Activities in the third year of tenure have been focussed on the silica resource located towards the northern part of EL63/2007. Much of this was driven by a strong and continuing interest in the high quality silica for the production of silicon metal. In 2010 interest in high purity silica broadened from one European company to at least four international companies based individually in the US, China, Korea, Japan and Germany. Several sampling and re-sampling programs have been conducted to retrieve silica sample material for tests and analyses by these companies and all companies have reported their interest.

Considerable time and effort has been expended in seeking market interest for the high purity silica product as well as down-stream processing opportunities. The potential costs for exporting raw lump silica from EL63/2007 to an international port mitigate against the economic viability of the project. These are mainly the lack of a suitable heavy ship port on the northeast coast of Macquarie Harbour and the lack of a rail service from Strahan. However, the possibility of opening a new silicon smelter in Tasmania has renewed interest in the project as moderate tonnages of lump silica could conceivably be shipped by small ship from a port within Macquarie Harbour, or alternatively barged to Strahan and then either trucked or trucked and railed from Zeehan to the smelter site. Hence a new focus has sought interested parties to join MHM Metals in building a silicon metal smelter in Tasmania to process the silica product. Considerable interest has been raised by several companies, however negotiations have hinged largely on factors other than the availability of raw silica, particularly the cost of electricity, the availability of local supplies of suitable charcoal from non natural growth forests and a suitable project site. These discussions and negotiations are now in an advanced stage and have involved parties from senior levels of the State government, the State's electricity providers, the Tasmanian Chamber of Business and Commerce and various commercial parties.

Further check sampling of some of Comalco's sample original sites has provided material for checks by a number of different sources. Table 1 shows duplicate samples that have been submitted for analysis to three separate parties. These are:

- a) ALS laboratories (Brisbane),
- b) Wacke Gmbh. Ertz in Germany and
- c) Soljitz in Japan.

Sample results highlighted in yellow in the table were taken in 2009 and have been reported previously.

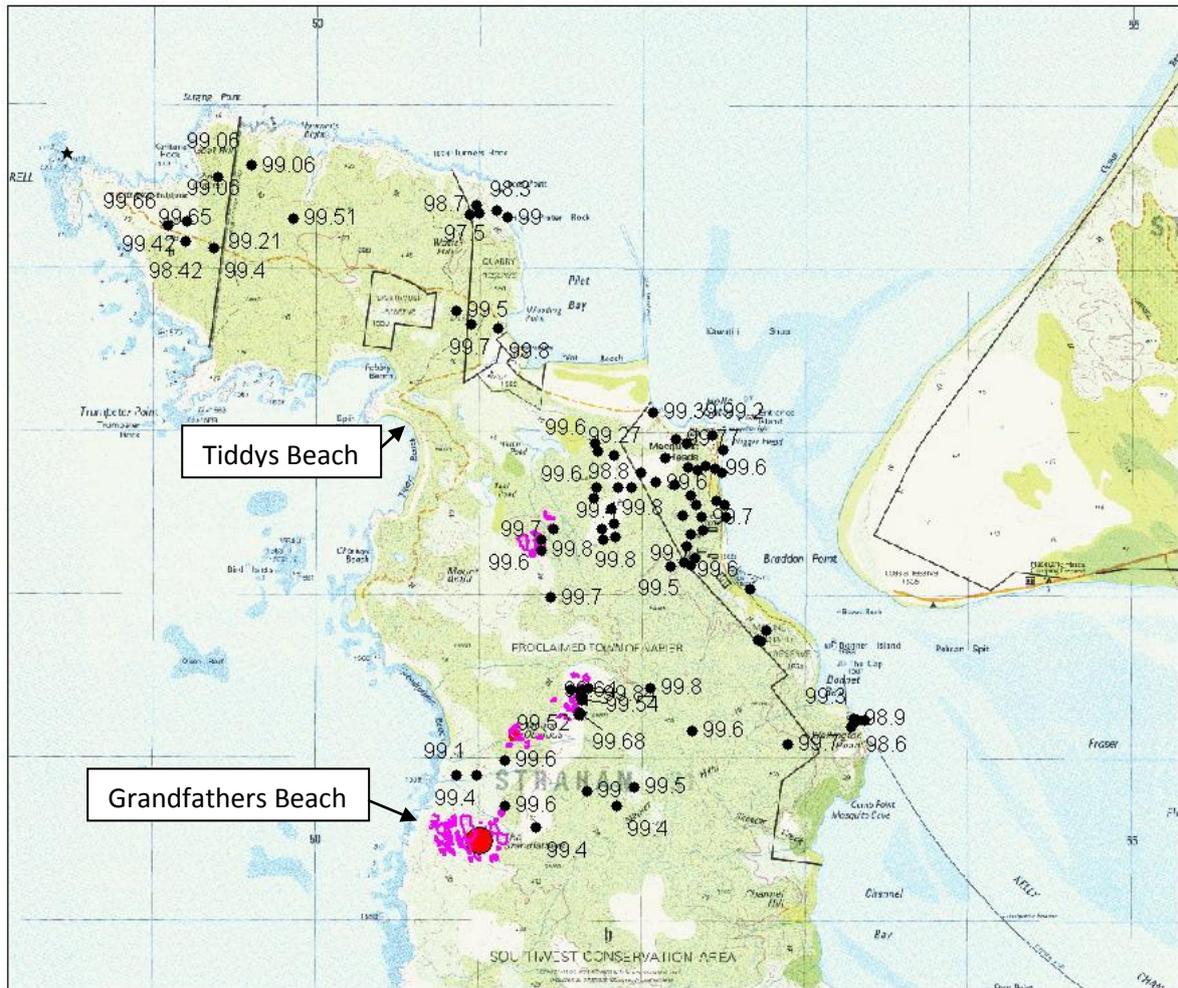


Figure 5. Previous and recent sample results (SiO₂) from quartzite outcrop on EL63/2007

SAMPLE	DESCRIPTION	CSW1	CSW1	CSW2	CSW2	CSW3	CSW3	CSW4	CSW4	CSW5	CSW5
		ALS (ME- PKG85)	Wacke								
Al2O3	%	0.074	0.027	0.022	0.0158	0.183	0.013	0.024	0.0169	0.049	0.0086
Fe2O3	%	0.011	0.0044	0.006	0.0046	0.01	0.0036	0.008	0.0025	0.008	0.0025
TiO2	%	0.014	0.0026	0.028	0.0037	0.027	0.0026	0.026	0.0047	0.023	0.003
Cr2O3	ppm	3	<0,0005	2	<0,0005	2	<0,0005	3	<0,0005	3	<0,0005
Cu	ppm	<10	0.0007	<10	0.002	<10	0.001	<10	0.0005	<10	0.0008
Ni	ppm	10	0.0042	10	<0,0005	10	0.0031	10	<0,0005	10	<0,0005
CaO	%	0.005	0.0043	0.003	0.0035	0.004	0.0048	0.004	0.004	0.003	0.0043
MgO	%	0.012	0.0019	0.002	0.0012	0.009	0.0014	0.003	0.0017	0.009	0.0014

SAMPLE	DESCRIPTION	CSS1 A	CSS1 B	CSS2A	CSS2B	CSS3A	CSS3B
		Soljitz	Soljitz	Soljitz	Soljitz	Soljitz	Soljitz
SiO2	%	99.68	99.64	99.54	99.52	99.84	99.64
Fe2O3	%	0.011	0.011	0.011	0.012	0.008	0.014
Al2O3	%	0.15	0.16	0.24	0.27	0.029	0.13
CaO	%	0.006	0.006	0.004	0.004	0.004	0.005
P2O5	%	0.002	0.002	0.003	0.004	0.003	0.004
TiO2	%	0.013	0.1	0.104	0.015	0.012	0.011
B	%						
C	%	0.008	0.014	0.02	0.012	0.17	0.029
MnO2	%						
K2O	%	0.04	0.045	0.07	0.072	0.005	0.012
Na2O	%	0.006	0.009	0.006	0.007	0.004	0.011
MgO	%	0.005	0.005	0.007	0.008	0.004	0.008

Table 1. Check samples from 5 locations at North Escarpment area and assayed by different laboratories as explained in the text.

The white, rounded outcrops of re-silicified quartzite may represent a leached cap rock over a quartzite protolith with a more heterogeneous mineral assemblage. On the western shores of the Macquarie Peninsula, at least from Tiddys Beach to Grandfathers Beach (Figure 5), the wave cut platform reveals tightly folded and weakly metamorphosed siltstones, mudstones and fine sandstones (Figure 6). Most are grey, black or brown in colour and are very unlikely to contain the high purity silica of the white outcrops further inland. In contrast, the wave cut platform on the beach from Nigger Head to Braddon Point exposes pale brown to pale grey quartzites. Some samples from these quartzite outcrops were assayed and returned the following analyses:

SampleID	East_AGD66	North_AGD66	SiO2%	Al2O3%	Fe2O3%	TiO2%
2201	352493	5324575	99.10	0.41	0.04	0.02
2202	352499	5324499	98.50	0.81	0.03	0.05
2203	352648	5324050	98.10	0.90	0.10	0.05

Table 2. Samples taken from the wave cut platform on the East shore of Macquarie Heads on actively eroded quartzite.

These samples have a high silica content and may be typical of the underlying rock beneath the re-crystallised and silicified, leached cap rock that contain the high grade silica (>99.5% SiO₂) further inland. Inspection of these high-purity outcrops shows that they occur in heavily fractured (jointed) rocks that can be traced to the quartzites on the beach on the eastern shore of the Peninsula. It is believed that the quartzites that outcrop on the eastern shore of the Peninsula are more likely to be the protoliths for the high purity silica cap rock than those impure fine sediments that crop out on the western shoreline.

Geological mapping has shown that the regional strike of the stratigraphy is NNW to due north with steep westerly dip. At least 3 phases of folding have been recognised, which can be described as follows:

- Phase 1, tight, disharmonic small amplitude folds easily recognisable on the western shore of the Sorell Peninsula in mixed, fine-medium grained sediments. See Figure 6.
- Phase 2, moderate amplitude folds with NW-SE strike axes, see Figure 8
- Phase 3, tight, possibly isoclinal folding with NNW to North striking fold axes, see figure 9.



Figure 6 Phase 1 soft sediment deformation in phyllites on Grandfathers Beach.

7 CONCLUSIONS

Surface sampling and geological mapping suggest that some outcrop may be leached of silica impurities (caprock) with less pure quartzite below. To test whether this is correct and the thickness of the caprock a reconnaissance drilling program has been proposed.

A drill program has been approved by MRT to test the thickness of the perceived leached cap rock, due to begin in April 2011. The program was originally designed to test three, high purity silica targets, however only two targets have been approved by MRT. Figure 7 shows the location of the drill targets (note: sites opposite Bonnet Island will not be drilled). Table 3 shows details of the holes proposed.

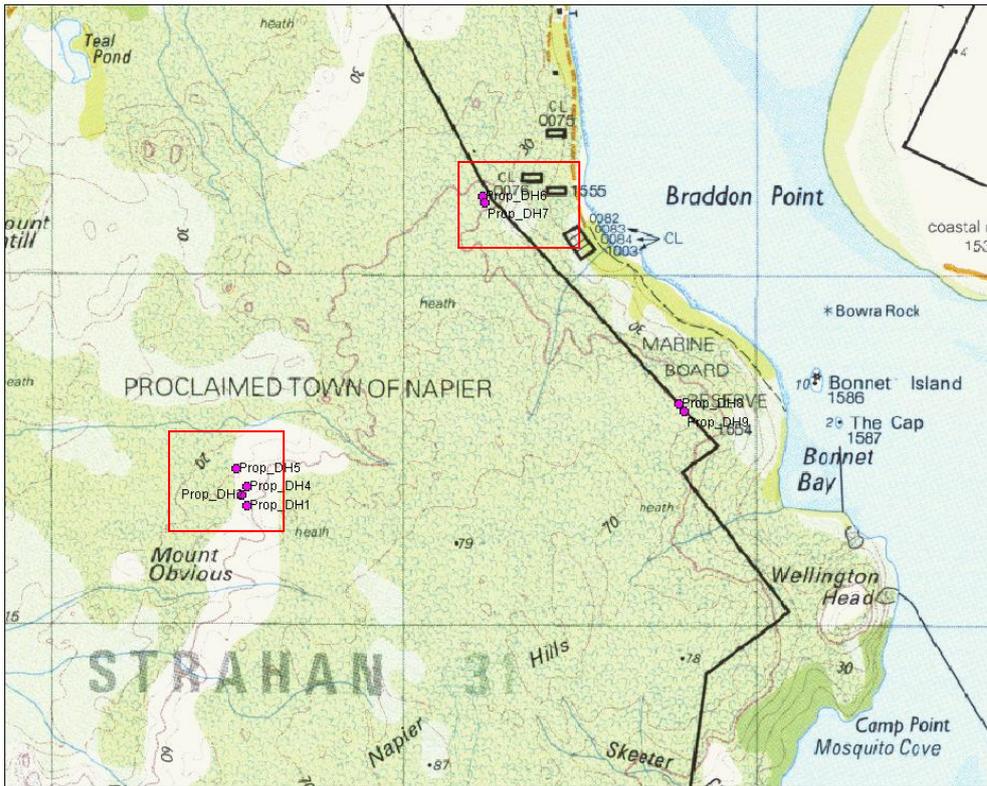


Figure 7. Topographical map of Cape Sorell showing the 2 proposed locations for drilling outlined in red

HoleID	East_AGD66	North_AGD66	Grid_ID-1	TotalDepth	HoleType	Collar_Dip	Collar_AMG 66Azimuth
Prop_DH1	351555	5323338	AGD66-Z55	60.00	DD	-50	135
Prop_DH2	351555	5323338	AGD66-Z56	30.00	DD	-45	110
Prop_DH3	351542	5323366	AGD66-Z57	40.00	DD	-45	90
Prop_DH4	351557	5323392	AGD66-Z58	60.00	DD	-45	90
Prop_DH5	351526	5323444	AGD66-Z59	60.00	DD	-45	90
Prop_DH6	352226	5324222	AGD66-Z60	60.00	DD	-45	70
Prop_DH7	352232	5324203	AGD66-Z61	60.00	DD	-45	70
Total				370			

Table 3. Proposed diamond drill holes at on EL63/2007 scheduled for drilling in April 2011

Figure 8 shows the proposed holes at North Escarpment. The outcrop map is based on Comalco's work, which has been verified by MHM. The regional strike of the rocks is north-west with a steep westerly dip; however interference folding (phase 2) has locally changed the structure so that a small synform crops out near site proposed hole DH_1.

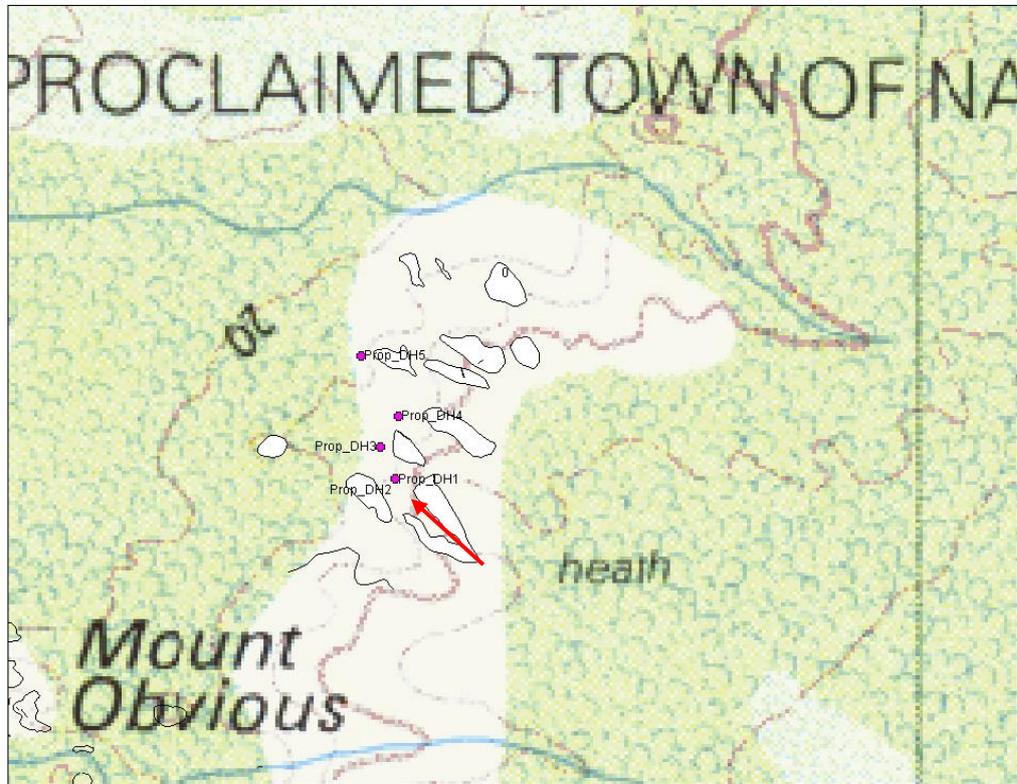


Figure 8. Geological outcrop map of North Escarpment showing the proposed drill locations. Red arrow is the axis of a plunging syncline (phase 2 fold).



Figure 9. Keel of an antiform (highlighted in red) on the beach approx 1km south of Macquarie Heads jetty. Keel strikes due north-south.

Discussions regarding the marketing of the silica are continuing at the time of writing this report.

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8 EXPENDITURE

Total annual expenditure for EL61/2007, EL62/2007 and EL63/2007.

Geoscientific Costs	
Geology	\$224,750.69
Geochemistry	
Geophysics	
Remote sensing	
Drilling & Gridding Costs	
Gridding	
Drilling	
Earthmoving	
Land Access Costs	
Feasibility Costs	
Other Costs	\$ 21,700.78
Rental fees	
Vehicular track Construction	
Surveying, contract drafting etc	
Capital equipment purchase	
Administration Costs	\$ 205.06
(note: not to exceed 10% of annual expend)	
Legal	
Office & Admin	
Total	\$246,656.53

9 Key words:

Lump silica, Sorell Peninsula, leached caprock