



ASX Announcement

15 November 2016

Proposed merger with Alliance Mining Commodities Limited

MHM Metals Limited (**MHM** or the **Company**) (ASX: MHM) is pleased to advise that it has entered into a merger term sheet with Alliance Mining Commodities Limited (**AMC**), a privately owned Bermudan company that owns a 90% interest in the world class Koumbia bauxite project in Republic of Guinea (the **Koumbia Project**).

The proposed merger with AMC follows an extensive review of available investment opportunities in the resource sector that can provide an opportunity to apply the Company's balance sheet and management expertise to generate returns for shareholders.

MHM believes that the proposed merger with AMC provides a unique opportunity to leverage a world class project off MHM existing management's significant experience in the development of bulk commodity and infrastructure projects to create a substantial new ASX-listed direct shipping bauxite producing company in the short to medium term.

The proposed merger would be implemented by way of a scrip exchange whereby MHM would acquire 100% of the shares in AMC in exchange for the issue of MHM shares to existing AMC shareholders at an indicative merger ratio of 15% MHM : 85% AMC, subject to MHM maintaining net assets of not less than \$7.0 million at the time of signing the relevant binding transaction documentation.

MHM and AMC have agreed to an exclusivity period of 8 weeks (subject to a fiduciary carve-out) to enable both parties to complete their respective due diligence enquiries and to finalise the binding terms of the proposed merger.

As indicated above, AMC's main asset is a 90% interest in the Koumbia Project in Republic of Guinea. The Koumbia Project is located in the world renowned Boke Bauxite belt of Guinea, a globally significant region for premium quality direct shipping bauxite. The remaining 10% interest in the project is held by the Government of Guinea.

Company Snapshot

Capital Structure

Ordinary shares on issue:	136,228,616
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Directors

Paul Kopejtka (Non- Executive Chairman)
Joseph van den Elsen (Managing Director)
Chris Goodman (Non-Executive Director)

Company Secretary

Justin Mouchacca

AMC has spent over US\$40 million to date on exploration and resource delineation, a definitive feasibility study for a 10mtpa operation and environmental and social impact studies. It has a granted Mining Concession from the Government of Guinea and has an agreed Mining Convention for the development and operation of the mine.

The proposed merger between MHM and AMC remains conditional on (amongst other things):

- Completion by both parties of satisfactory due diligence enquiries;
- Execution of binding merger documentation to effect the proposed transaction;
- MHM obtaining all regulatory approvals in order to complete the proposed merger, including under Chapter 11 of the ASX Listing Rules;
- MHM receiving conditional approval from ASX for the restatement of its securities to official quotation on ASX on conditions acceptable to both parties;
- MHM shareholder approval;
- MHM completing a capital raising of sufficient amount to enable MHM to re-comply with Chapters 1 and 2 of the ASX Listing Rules;
- The approval of AMC shareholders.

In connection with the proposed merger, MHM intends to conduct a capital raising to advance the development of the Koumbia Project and to enable the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules such that MHM shares can be reinstated to official quotation on ASX.

Pre-completion funding

In connection with the proposed merger, MHM has agreed to provide AMC with a loan facility of up to \$1.5 million to enable AMC to continue to progress with agreed development activities on the Koumbia Project (the **MHM Loan Facility**). The provision of this funding facility ensures that development activity of the Koumbia Project can continue without being adversely impacted by the proposed merger with MHM.

The MHM Loan Facility is structured so as to allow AMC to drawdown amounts pursuant to an agreed budget with the drawdown schedule staged so as to ensure that the timing for drawdown on more material tranches is deferred until MHM has had an opportunity to complete its due diligence.

Amounts drawn down by AMC under the MHM Loan Facility are repayable at any time up to the date that is 12 months from the date of this announcement, with amounts not repaid by that time being convertible at AMC's election into AMC shares. AMC must repay any amounts drawn down under the MHM Loan Facility immediately (plus a 20% premium on any such amounts outstanding) if AMC breaches its exclusivity obligations or otherwise seeks to rely on the fiduciary carve-out to those obligations.

In all other circumstances, AMC has agreed to pay MHM an additional 10% premium on amounts repaid under the MHM Loan Facility in lieu of interest, provided always that no additional premium is payable where the proposed merger does not proceed due to:

- MHM not putting the proposed merger to its shareholders due to a change of control of MHM;
- MHM shareholders not approving the proposed merger with AMC; or
- MHM breaching its obligations in respect to the proposed merger.

For these purposes, Control means the power (whether by ownership of share, proxy, contract, agency or otherwise) to cast or control the casting of more than 20% of the votes that may be cast at the general meeting of the shareholders of MHM, or the right to appoint, or procure a change in, the majority of the directors of MHM.

Drawdowns under the MHM Loan Facility are conditional upon (amongst other things):

MHM Metals Limited ABN 41 124 212 175

- AMC confirming in writing to MHM that it is satisfied with its due diligence enquiries on MHM;
- AMC obtaining any necessary waivers or approvals from its shareholders so as to enable AMC to be able to comply with its obligations under the MHM Loan Facility; and
- MHM and AMC agreeing a budget to govern the application of funds drawn down under the MHM Loan Facility.

As indicated above, AMC may elect to convert amounts outstanding at the expiry of the 12 month repayment term into AMC shares. The number of shares acquired by MHM in such circumstances depends upon the amount outstanding under the MHM Loan Facility (with no additional premium being applied to outstanding amounts under the facility). By way of example, if all of the MHM Loan Facility is drawn down and ultimately converted into AMC shares, MHM would acquire a shareholding of 3.31% of AMC.

Indicative timetable

An indicative timetable for the proposed merger is set out below. MHM shareholders should note that the timetable is indicative only and is subject to change.

Completion of due diligence	Mid December 2016
Execution of binding merger documentation	End of December 2016
Meeting of MHM shareholders to approved the proposed merger	February 2017
Re-compliance with Chapters 1 and 2 of ASX Listing Rules and re-commencement of trading on ASX	March 2017

Trading in MHM shares will remain suspended on ASX until such time as the Company has met the necessary requirements under ASX Listing Rule 11.1 that may apply in relation to that opportunity (including re-complying with Chapters 1 and 2 of the ASX Listing Rules).

The Company will continue to keep shareholders informed of all material developments in relation to this potential transaction and provide shareholders with additional information on the Project as it advances its Due Diligence enquiries.

ENDS

For more information:

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