

MHM QUARTERLY ACTIVITIES REPORT



ASX Release – 30 January 2012

CORPORATE

- \$5.9 m cash on hand
- All resolutions unanimously approved at Annual General Meeting
- New York, London and south east Asia roadshows to increase institutional investor awareness and on-market support

AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

- Gross Quarterly Cash Receipts of \$1,000,151
- Gross Quarterly Operating Cash Surplus of \$440,289 with Trade Receivables of \$941,644
- 4,074 tonnes of salt slag and non-salt slag, and 915 tonnes of dross received during the quarter
- 24-hour operations to re-commence in January
- Landfill processing due to commence Q2 2012
- AL80 customs paperwork finalised, Impex has advised first shipment scheduled to depart by the end of February

US ALUMINIUM OPERATIONS UPDATE

- Three US supply contracts signed, with additional contract negotiations ongoing
- US site acquisition in Russellville Kentucky with settlement scheduled for 3 Feb
- \$835,000 purchase price to be funded from cash reserves
- 115-acre site with ample room for growth. Existing buildings expected to decrease project costs and timeframes
- Preliminary approval for over US\$1 million from government grants and incentives
- Anticipated plant capacity 250,000 tonnes pa
- Plant design and confirmation of capital cost underway, conservative initial budgetary estimate of US\$25 million
- Targeted EBITDA from first US plant US\$25 million pa when operating at full capacity
- Project finance favouring non-dilutionary mechanisms

SILICA PROJECT UPDATE

- Continued progress on supply contracts to underwrite Tasmanian silicon smelter
- Analysis of additional silica resources with the potential to fast-track production
- Engagement with corporate advisors regarding spin-off of the silica division
- Any further silica exploration work to be sub-contracted

EXPLORATION UPDATE

- All exploration activity discontinued, geological team wound-down
- Company savings of \$300,000 pa from salary payments alone
- Seeking to divest exploration landholdings to third parties

ASX Codes

MHM, MHMO

Issued Capital

104.0M Ordinary Shares
24.1M Listed Options

Substantial Shareholders

Rogers Southern PL 10%
Directors 13%
Top Twenty 34%

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

Cash Reserves

MHM Metals Limited had \$5.9 million cash on hand at 31 December 2011.

Results of AGM

MHM Metals' Annual General Meeting was held in Hobart on 29 November 2011. All resolutions in the Notice of Meeting of 1 November 2011 were approved unanimously on a show of hands.

International Institutional Investor Roadshow

Management is planning roadshows to institutional investors in Australia, New York, London and south east Asia by the end of March 2012. The purpose of the roadshows are to inform and engage new investors to build support for MHM and its share price. The roadshow is not designed for capital raising. Information on financing the company's US expansion is outlined below.

A number of stockbrokers are expressing interest in publishing research on MHM, which is also expected to be beneficial for the company. A recent broker and analyst site visit at the Geelong facility was conducted primarily to help achieve this goal.

AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

Financial Results

For the December 2011 quarter MHM's Australian aluminium subsidiary Alreco Pty Ltd gross cash receipts were \$1,000,151 with a gross operating surplus of \$440,289. Alreco also had trade receivables of \$941,644 million at 31 December 2011. A total of 4,074 tonnes of salt slag and non-salt slag, and 915 tonnes of dross were received during the quarter.

Operational Performance

Geelong salt slag recycling operations are performing to specification, with steady-state operations underway and 24-hour processing due to re-commence in January 2012. The stockpile of partly-processed salt slag is expected to take three months to reduce, and upon completion the processing of Alcoa's 160,000 tonne salt slag landfill will commence. Once landfill processing commences Alreco's operations are expected to increase in line with the forecast EBITDA of \$8 million per annum.

AL80 Shipment

Impex has advised that customs paperwork relating to export of AL80, Alreco's aluminium oxide product, has been finalised and that the first shipment will depart Moolap by the end of February 2012. The completion of customs paperwork is a major achievement for MHM as considerable effort was devoted to achieve this goal. The delays were a bureaucratic matter and unrelated to the desire of the end user to purchase the product.

Salt Crystallizer Construction

The timeframe for completion of construction of the salt crystallizer is uncertain. MHM is experiencing some issues with manufacture and assembly by the technology provider, and is working expeditiously to resolve the problems. The delay will not impact ongoing operations in Moolap due to the availability of evaporation ponds.

US ALUMINIUM OPERATIONS UPDATE

Site Selection

US subsidiary MHM Metals Corporation has contracted to acquire a 115-acre landholding in Russellville, Kentucky. The \$835,000 purchase price will be funded from existing cash reserves. The site contains a number of existing buildings that should decrease the time and expense of plant construction and the site is zoned correctly for its purpose.

MHM will operate the site and the entire US salt cake and dross reprocessing business under the name Alreco, as occurs in Australia. MHM has a pending US trademark for the Alreco name and logo - which are being processed with no apparent issues.

After assessing over 30 sites throughout the middle Tennessee and southern Kentucky region, the Russellville site is the preferred location for plant construction. Factors included:

- Identification of in excess of 350,000 tonnes per annum of salt slag and black dross within an economic radius of the plant site
- Large acreage providing Alreco the opportunity to grow and assimilate planned future technology developments

- Government support and incentives, not only financial but also the pro-business environment in Logan County
- A highly skilled local workforce and availability of workers
- Availability of rail, with a high-quality rail operator
- Availability of ample electricity supplies to the property for initial and future requirements

MHM had initially favoured a site in southern Tennessee close to two large salt slag producers but the decision was made to locate further north. The Russellville location remains an economic distance from these two secondary aluminium companies, but makes the facility less dependent on volumes produced by these two companies by introducing additional producers further north. This strengthens MHM's negotiating position for future contracts with Alreco's facility less reliant on any volume fluctuations from independent producers on account of a changing business environment. As most US secondary aluminium producers operate on short-term contracts, Alreco's supply over the long term can fluctuate and as such it is in Alreco's best interests to locate further north to access additional producers to lower long term supply risk.

The large land-holding provides ample opportunity for MHM to grow, and to accommodate additional associated technologies under development. The company has no plans to install furnaces or melting infrastructure on this site.

Government Grants and Incentives

The Kentucky Economic Development Finance Authority has approved tax incentives of up to \$825,000 for Alreco through the Kentucky Business Investment program. The performance-based incentive allows Alreco to keep a portion of its investment over the term of the agreement through corporate income tax credits and wage assessments by meeting job and investment targets.

The City of Russellville, Logan County and the Logan County Industrial Development Authority have approved a further \$250,000 infrastructure grant to Alreco. These funds will be paid against expenses for development of site infrastructure including a rail spur, electrical transmission, water and gas lines and site preparation works up to the agreed \$250,000 cap.

Contract Negotiations

Contract negotiations continue to progress in the United States, as MHM Metals Corp works to add additional processing volume to the three supply contracts already signed. It is anticipated that the company will continue to secure contracts during plant construction and commissioning. A number of companies have expressed keen interest in supporting MHM's facility but due to commercial competitive reasons will refrain from committing to contracts until the plant is operational. Given a cost competitive alternative to landfill, MHM can see no reason why any company would not choose the more environmentally responsible alternative of salt slag and black dross recycling.

US Financial Projections

MHM has a conservative preliminary budget estimate of US\$25 million for construction of its 250,000 tonne per annum plant. Targeted earnings for this first US facility for salt cake and black dross processing, and aluminium oxide sales and ancillary activities is US\$25 million per annum when operating at full capacity. MHM expects the plant will operate full capacity at 250,000 tonnes per annum within 12 months of commissioning.

Project Finance

Management continues to assess project-financing alternatives. Management will have utmost regard for minimisation of shareholder dilution as our priority is to maximise Earnings Per Share. Completion of project financing will follow finalisation of plant design, costing and scheduling - which are expected to be finalised over coming months.

It is important to note that in addition to existing cash reserves, MHM's listed options (MHMO) expire on 31 August 2012. If all of the 24.3 million options are exercised for \$0.20 per share, this would generate additional income of \$4.86 million to the company. Further, with the expected increase in earnings from landfill processing in Moolap and cost efficiencies from continued maturation of Australian operations, growing internal cashflows will also assist with the US expansion. These factors, together with the anticipated availability of debt financing, leaves the company very well placed to grow the company with minimal, if any, dilution of existing shareholders.

Additional Plant Location Opportunities

MHM continues to engage with a number of companies with operations in north eastern United States and south eastern Canada to assess further salt slag and black dross recycling opportunities. A substantial volume of material has been identified in this region as well as companies supportive of MHM's business that recognise the imperative to cease landfilling. Management's primary focus in the US continues to be on the

construction of the Russellville Kentucky facility, although with its high growth objectives the company is assessing other compelling site alternatives.

SILICA DIVISION UPDATE

MHM continues to make progress for the silica division with an emphasis on obtaining supply contracts to underwrite the development of a Tasmanian silicon smelter. Additionally considerable effort has been devoted to securing silica reserves that may help fast-track production and offtake and lower costs of production.

MHM continues to engage numerous expressions of interest for development of a silicon smelter in Tasmania. Work continues on site selection, power supply agreements and the supply of sufficient timber for production of charcoal needed for the process.

During the quarter the company has closely examined a number of other lump silica and silica flour opportunities in Tasmania and mainland Australia. The company is in negotiations with some of the controlling parties of these advanced JORC-compliant silica deposits with a view to add resources to the Cape Sorell prospect. The addition of advanced-stage silica resources with the Cape Sorell silica prospect would strengthen the case for a Tasmanian silicon smelter.

Should this smelter materialise it will be a very large undertaking for MHM, and considerable progress is being made concerning investigation of financial and corporate structures that maximise shareholder benefits. MHM is actively engaged with corporate advisers and has a targeted timeframe of concluding any spin-off by mid-2012, depending on market conditions.

EXPLORATION UPDATE

The Board of Directors has decided to discontinue any further mineral or metals exploration activity, and is actively seeking to divest its exploration projects. This is a key decision signifying MHM's move out of mineral exploration.

This does not include the silica assets, which continue to be retained but do not require any significant exploration or development at present. Future resource development for silica will be contracted out, and as detailed above management is assessing the best corporate and financial structure for the silica division.

The board has given notice to the geological staff of the decision to cease all exploration, and commenced a notice period for cessation of employment. This decision will save MHM at least \$300,000 per annum. Management expresses sincere gratitude to the geological team and wishes them the best for their future endeavours.

FURTHER INFORMATION:

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