

MHM QUARTERLY ACTIVITIES REPORT

ASX Release - 31 July 2012



CORPORATE

- \$3.7m cash on hand, \$850,000 trade receivables
- Phil Thick joined the Board as a Non-Executive Director in May and was appointed Managing Director and CEO in July, with Frank Rogers moving to the position of Technical Director
- Dr Neil Allen retired from the Board in May
- Phil Thick will be conducting a roadshow during August to update investors and brokers.

AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

- Quarterly cash receipts from Alreco were \$1.3m and operating surplus was \$330,000 for the quarter
- With production refinements now complete, 24 hour processing of salt cake and black dross has re-commenced and throughput is increasing towards the target of 1,200 tonnes per week
- Alreco is receiving 1,200 tonnes of Alcoa material per month and its processing is being mixed with the 11,000 tonnes of unprocessed material stockpiled on site and the 15,000 tonnes of partly processed bagged material
- When the unprocessed stockpile has been completed, processing of the 160,000 tonne Alcoa landfill will commence
- Program for processing landfill has been agreed with Alcoa and is expected to commence Q4 this calendar year
- Partly processed material will not be cleared until Q2 calendar 2013. While management certainly expects profitability to increase when landfill processing commences, the plant will not be operating at full revenue and operating profit until the stockpile re-processing is complete with an estimated timeframe of Q3 calendar 2013
- 10 year supply agreement with Australia Bandfield Group signed for AL80 from the Australian plant, together with Letter of Intent for all US-produced AL80
- First AL80 shipment passed customs and quarantine in China and was delivered to end user, and 1,500 tonnes is stockpiled ready for the next shipment
- Decision taken to extend evaporation ponds rather than invest in a new crystalliser for the Australian plant, saving significant capital but resulting in a time lag for receiving salt income.

US ALUMINIUM OPERATIONS UPDATE

- Fourth and most important salt cake/black dross supply agreement signed for 12 month term with recoveries of material to determine longer-term agreement
- Progressing detailed design of Russellville facility to allow firm cost estimates, as required by financiers
- Funding plan is being progressed, discussions are continuing with potential financiers and it is expected to take several months to finalise the debt funding

ASX Codes

MHM, MHMO

Issued Capital

106,5M Ordinary Shares
21.7M Listed Options

Substantial Shareholders

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

Directors

Chairman - Basil Conti
Managing Director - Phil Thick
Executive Director - Ben Mead
Executive Director - Simon Wells
Technical Director - Frank Rogers

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ABN: 41 124 212 175

- The facility will be built in two 125,000 tonnes per annum stages, with much of the buildings and infrastructure in the first stage covering the full plant capacity, and the processing plant being doubled in the second stage
- Current processing contracts are in place for more than half of the tonnage capacity of phase one. It is anticipated that additional supply contracts will be secured prior to or shortly following commissioning of the Russellville plant
- Several options are being pursued to deliver a crystalliser for the first stage at the lowest possible cost.

SILICA PROJECT UPDATE

- MHM Metals has incorporated a wholly owned subsidiary, Silco Industries, and all MHM's silica assets will be transferred into that company
- Silco will be run independently of MHM in terms of budget and staffing. This will allow MHM to focus its attention and funds on its core aluminium waste recycling business
- It is planned for Silco to raise its own funds through an equity placement with MHM remaining the majority shareholder. This will deliver value to MHM shareholders without dilution
- Silco is expected to be offered as an IPO in 2013, following the initial project development stage
- ASX-code 'SIO' has been reserved for the anticipated Silco IPO
- Negotiations are well advanced for the acquisition of several highly strategic silica resources and for a significant new technology agreement.

For further information contact

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Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

MHM Metals Limited

ABN

41 124 212 175

Quarter ended ("current quarter")

30 June 2012

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|----------------------------|--|
| Cash flows related to operating activities | | |
| 1.1 Receipts from product sales and related debtors | 1,420 | 4,190 |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (70) | (747) |
| (b) US development | (131) | (644) |
| (c) production | (1,085) | (3,365) |
| (d) administration | (384) | (1,837) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 56 | 348 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other – research & development tax incentive | - | 88 |
| Net Operating Cash Flows | (194) | (1,967) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | | |
| (i) Exploration activities | - | (95) |
| (ii) Aluminium processing activities | (525) | (3,163) |
| (iii) US property acquisition & improvements | (188) | (978) |
| 1.9 Proceeds from sale of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | 29 |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other (provide details if material) | - | - |
| Net investing cash flows | (713) | (4,207) |
| 1.13 Total operating and investing cash flows (carried forward) | (907) | (6,174) |

| | | | |
|---|--|-------|---------|
| 1.13 | Total operating and investing cash flows (brought forward) | (907) | (6,174) |
| Cash flows related to financing activities | | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 349 | 903 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | 99 |
| 1.17 | Repayment of borrowings | (37) | (121) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) | - | - |
| Net financing cash flows | | 312 | 881 |
| Net increase (decrease) in cash held | | (595) | (5,293) |
| 1.20 | Cash at beginning of quarter/year to date | 4,278 | 9,021 |
| 1.21 | Exchange rate adjustments to item 1.20 | 16 | (29) |
| 1.22 | Cash at end of quarter | 3,699 | 3,699 |

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 | 208 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

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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

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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

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Financing facilities available

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 | (37) |
| 4.2 | Development | (974) |
| 4.3 | Production | (475) |
| 4.4 | Administration | (478) |
| Total | | (1,964) |

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 | 3,699 | 4,278 |
| 5.2 | Deposits at call | - | - |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | | 3,699 | 4,278 |

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 | | |

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.

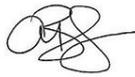
| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|--------------|---------------|---|--|
| 7.1 Preference securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 105,926,817 | 105,926,817 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 1,696,549 | 1,696,549 | | |
| 7.5 +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | 24,307,578 | 22,376,353 | <i>Exercise price</i> | <i>Expiry date</i> |
| | 1,000,000 | - | 20 cents | 31 August 2012 |
| | 1,000,000 | - | 20 cents | 28 November 2013 |
| | 140,000 | - | 20 cents | 14 December 2013 |
| | 1,900,000 | - | 25 cents | 9 October 2014 |
| | 100,000 | - | 28 cents | 30 November 2014 |
| | 300,000 | - | 28 cents | 4 January 2015 |
| | 300,000 | - | 85 cents | 6 October 2015 |
| | 300,000 | - | 180 cents | 20 June 2016 |
| | 150,000 | - | 100 cents | 30 June 2016 |
| | 100,000 | - | 126 cents | 23 August 2016 |
| | 300,000 | - | 100 cents | 5 November 2014 |
| | 1,450,000 | - | 171 cents | 29 November 2016 |
| | 150,000 | - | 135 cents | 14 February 2017 |
| 7.8 Issued during quarter | - | - | <i>Exercise price</i> | <i>Expiry date</i> |
| 7.9 Exercised during quarter | (1,696,549) | (1,496,549) | | |
| 7.10 Expired during quarter | | | | |

| | | | |
|------|--|--|--|
| 7.11 | Debentures <i>(totals only)</i> | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | | |

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 5).

2 This statement does ~~does not~~ *(delete one)* give a true and fair view of the matters disclosed.



Sign here: Date: 31 July 2012
(~~Director~~/Company secretary)

Print name: Annabelle Brooks

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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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.

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