



TARGET'S STATEMENT

by

MHM Metals Limited
ACN 124 212 175

in relation to the offer by

Mercantile OFM Pty Ltd
ACN 120 221 623

to acquire your shares in MHM Metals Limited

MHM Metals Limited's Directors unanimously recommend
that you

REJECT

Mercantile OFM Pty Ltd's Offer

THIS IS AN IMPORTANT DOCUMENT

If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.

LETTER FROM THE CHAIRMAN

Dear Fellow Shareholder

On 10 January 2017, Mercantile Investment Company Limited ACN 121 415 576 (**MVT**) announced an unsolicited, off-market cash takeover offer by its wholly owned subsidiary, Mercantile OFM Pty Ltd ACN 120 221 623 (**Mercantile OFM**), for all the Shares in MHM Metals Limited (**MHM**).

This Target's Statement sets out your Directors' formal response to the Offer.

The Directors also note that on 9 February 2017, MHM received a notice of intention to make an off-market, cash takeover offer from Cadmon Ventures Pty Ltd ACN 617 176 253 (**Cadmon**) (**Alternative Offer**). MHM received Cadmon's bidder's statement on 23 February 2017.

While there are certain advantages associated with Mercantile OFM's Offer, there are also a number of disadvantages. The Directors have extensively analysed the competing considerations in making their recommendation and, on balance, have decided that the disadvantages outweigh the advantages and therefore:

the Directors unanimously recommend that you REJECT Mercantile OFM's inadequate Offer on the basis that:

- the Offer Price represents a 3.25% discount to MHM's cash backing per share of \$0.0413 (4.13 cents per Share);
- the Offer Price fails to take into account the value of MHM's ASX listing, which could be realised by MHM via a back-door listing in partnership with another entity;
- given the previous experience and track record of the Directors, there is a possibility that MHM may be able to identify alternate opportunities that provide value to Shareholders in excess of the Offer consideration;
- the Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to the Shareholders of MHM;
- the Offer Price is lower than the offer price under the Alternative Offer, and Mercantile OFM's Offer Price is final;
- if you accept the Offer, you are unable to accept the Alternative Offer, or any other Superior Offer if one emerges; and
- there may be tax implications for you if you accept the Offer.

Shareholders can **REJECT** the Offer by **TAKING NO ACTION**.

Further information, including the detailed reasons for your Directors' recommendation, is set out in this Target's Statement.

In order to consider the Offer in detail and guide MHM's Directors in their recommendation, leading financial services firm BDO was engaged to prepare an Independent Expert's Report. The purpose of this report is to consider, in the Independent Expert's opinion, whether the Offer is fair and reasonable to Shareholders. A copy of the Independent Expert's Report accompanies this Target's Statement in Annexure 1. The Directors encourage Shareholders to consider its contents carefully.

In assessing whether or not to accept the Offer, you should consider the information provided to you in this Target's Statement, the risks and potential rewards of remaining a Shareholder versus the certainty of a cash offer, and your own personal circumstances. I encourage you to read this document carefully. If you have any questions in relation to your position as a Shareholder I encourage you to seek either financial or legal advice without delay.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Faldi Ismail', is positioned above the printed name and title.

Faldi Ismail
Non-Executive Chairman

MHM's Directors unanimously recommend that you REJECT Mercantile OFM's Offer by TAKING NO ACTION, given:

- 1. The Offer Price is less than the cash backing of MHM's Shares;**
- 2. The Offer Price undervalues MHM's ASX listing;**
- 3. The Offer deprives the Company of the potential for an alternative opportunity which may be identified given the experience of the new Directors;**
- 4. The Offer Price is less than the offer price of the Alternative Offer;**
- 5. The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders of MHM;**
- 6. If you accept the Offer, you are unable to accept the Alternative Offer, or any other Superior Offer if one emerges; and**
- 7. There may be tax implications for you if you accept the Offer.**

The full basis for the Directors' recommendation is provided in Section 1.2 of this Target's Statement.

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IMPORTANT INFORMATION

Important Information

This is an important document. If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.

Shareholder Information

If Shareholders have any queries in relation to Mercantile OFM's Offer, they may call the Company on +61 (03) 9692 7222 on weekdays between 9.00am and 5.00pm (Melbourne time) or visit MHM's website at www.mhmmetals.com.

Nature of this document

This Target's Statement is dated 27 February 2017 and is given under Part 6.5 Division 3 of the Corporations Act by MHM Metals Limited ACN 124 212 175 (MHM) in response to the Bidder's Statement lodged by Mercantile OFM Pty Ltd ACN 120 221 623 (Mercantile OFM) with ASIC and served on MHM by Mercantile OFM on 30 January 2017.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and ASX. Neither ASIC or ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

No account of personal circumstances

The recommendations of the Directors contained in this Target's Statement do not take into account the individual investment objectives, financial situation or particular needs of each Shareholder. You may wish to seek independent professional advice before making a decision as to whether to accept or reject the Offer.

Defined terms

This Target's Statement uses a number of capitalised terms that are defined in Section 12 which also contains some of the rules of interpretation that apply to this Target's Statement.

Forward-looking statements

This Target's Statement contains various forward-looking statements. Statements other than statements of historical fact may be forward-looking statements. Shareholders should note that such statements are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of MHM. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward-looking statement.

These forward looking statements are based on present economic and business conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Target's Statement, are considered reasonable.

None of MHM, its officers, any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any

forward-looking statement, or any results, values, performances or achievements expressed or implied in any forward-looking statement, except to the extent required by law. Shareholders should not place undue reliance on any such statement.

The forward-looking statements in this Target's Statement on behalf of MHM only reflect views held as at the date of this Target's Statement.

Notice to foreign shareholders

The distribution of this Target's Statement may, in some countries, be restricted by law or regulation. Persons who come into possession of this Target's Statement should inform themselves of and observe those restrictions.

Information on Mercantile OFM and MVT in this Target's Statement

Except where disclosed otherwise, the information on Mercantile OFM and MVT in this Target's Statement has been obtained from the Bidder's Statement and other publicly available information. MHM and its Directors are unable to verify the accuracy or completeness of the information on Mercantile OFM or MVT (as applicable). Subject to the Corporations Act, neither MHM, nor its officers make any representation or warranty, express or implied, regarding such information and disclaim any responsibility in respect of that information.

Privacy statement

MHM has collected your information from the Share Register for the purpose of providing you with this Target's Statement. The type of information that MHM has collected about you includes your name, contact details and information on your shareholding in MHM. The Corporations Act requires the name and address of Shareholders to be held in a public register.

MHM has also provided or will provide personal information about its Shareholders to Mercantile OFM in accordance with the Corporations Act and the ASX Settlement Operating Rules.

KEY POINTS

- Mercantile OFM is offering \$0.04 in cash for each Share you hold. This is less than the offer price per Share under the Alternative Offer.
- The Directors recommend that you **REJECT** the Offer for your Shares. Accordingly, you should **TAKE NO ACTION**.
- On 21 February 2017, Mercantile OFM had a Relevant Interest in 1.31% of Shares.
- Your choices are to:
 1. REJECT the Offer and do nothing.
 2. Accept the Offer and sell your Shares off-market to Mercantile OFM at the Offer Price.
 3. Sell your shares off-market to a third party or, if the Shares resume trading, on-market (unless you have previously accepted the Offer and not validly withdrawn your acceptance).
- MHM's Shares are currently suspended from trading until it re-complies with Chapters 1 and 2 of the Listing Rules. If trading is resumed, you may elect to sell some or all of your Shares on-market for cash through ASX, if you wish.
- The Offer is off-market. If you do accept the Offer or otherwise sell your Shares, you will not be able to participate in the Alternative Offer, or any other Superior Offer or other offer that may emerge.
- The Offer will expire on 7pm (AEST) on 13 March 2017 (unless extended or withdrawn by Mercantile OFM beforehand).

IMPORTANT DATES

Event	Date
Offer received	10 January 2017
Offer Period commences	13 February 2017
Date of this Target's Statement	27 February 2017
Close of the Offer Period (unless extended or withdrawn)	13 March 2017

Note:

The above dates are indicative only and may change without notice. The Company reserves the right to amend the timetable at any time.

REASONS WHY YOU SHOULD REJECT THE OFFER

The Offer Price is less than the cash backing of MHM's Shares.	Section 1.4(a)
The Offer Price undervalues MHM's ASX listing.	Section 1.4(b)
The Offer deprives the Company of the potential for an alternative opportunity which may be identified given the experience of the new Directors.	Section 1.4(c)
The Offer Price is less than the offer price of the Alternative Offer.	Section 1.4(d)
The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders of MHM.	Section 1.4(e)
If you accept the Offer, you are unable to accept the Alternative Offer, or any other Superior Offer if one emerges.	Section 1.4(f)
There may be tax implications if you accept the Offer.	Section 1.4(g)

1. Recommendations of the Directors

1.1 Summary of the Offer

The consideration being offered by Mercantile OFM under the Offer is \$0.04 in cash for each Share you own.

The Offer is a cash offer and conditional upon no Prescribed Occurrences happening during the period commencing on the Announcement Date and ending on the expiry of the Offer Period.

The Offer Price values the equity of MHM at approximately \$5.45 million on an undiluted basis.

1.2 Directors recommendation

The Directors unanimously recommend you **REJECT** Mercantile OFM's Offer for your Shares.

In making this recommendation, each Director has considered the merits of the Offer and weighed up the factors for and against acceptance.

When making your decision, you should:

- (a) read the Bidder's Statement in its entirety;
- (b) read this Target's Statement in its entirety, in particular the risks of holding Shares as set out in Section 6;
- (c) be aware that the Offer is conditional upon no Prescribed Occurrences happening during the period commencing on the Announcement Date and ending on the expiry of the Offer Period; and
- (d) be aware of the consequences of becoming a minority Shareholder, as set out in Section 2.5.

The Directors' recommendation is given as at the date of this Target's Statement. The Directors reserve the right to change their recommendation should new circumstances arise.

1.3 Opinion of Independent Expert

MHM engaged BDO to provide an independent expert's report in respect of the Offer.

The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to the Shareholders of MHM.

A copy of the Independent Expert's Report accompanies this Target's Statement in Annexure 1.

1.4 Key considerations for REJECTING the Offer

(a) The Offer Price is less than the cash backing of MHM's Shares.

As at the date of this Target's Statement, MHM has approximately \$5.6 million in cash, representing a cash backing of \$0.0413 (4.13 cents) per Share.

The Offer Price of only \$0.04 per Share represents a 3.25% discount to this cash backing per Share.

Accordingly, in the Board's opinion, the Offer Price does not sufficiently compensate Shareholders for the value of their Shares.

(b) The Offer Price fails to take into account the value of MHM's ASX listing.

The value of MHM's ASX listing could be realised by MHM via a back-door listing in partnership with another entity as an alternative to MHM's removal from the official list of ASX.

In section 4 of the Bidder's Statement, Mercantile OFM has indicated that it intends to seek to remove MHM from the official list of ASX.

Mercantile OFM's Offer would see the value of a significant asset pass to Mercantile OFM without compensating existing Shareholders for the loss of that asset.

(c) The Offer deprives the Company of the potential for an alternative opportunity

On 21 December 2016, the Company announced that it had recently been in discussions with Otsana Capital to assist the Company identify and acquire a suitable business to facilitate the reinstatement of the Company's shares to trading on the ASX.

Otsana Capital is a Western Australian based corporate advisory firm which specialises in restructuring and recapitalising ASX listed entities, as well as identifying and facilitating reverse takeovers (also known as back-door listings) and initial public offerings. It has been agreed that Otsana Capital will continue to work with MHM.

Otsana Capital proposed 3 new Directors be appointed to the Board, Mr Faldi Ismail, Mr Bryn Hardcastle and Mr Nicholas Young. These appointments took effect on 20 December 2016. A biography regarding each of the Directors is in Section 7.6.

These new Directors have considerable experience as directors of companies that have undertaken back-door listings and have demonstrated an ability to realise value for shareholders through such transactions, as is further detailed in Section 7.3.

Given the previous experience and track record of the new Directors, there is a possibility that the Company may be able to identify alternate opportunities that provide value to Shareholders in excess of the Offer consideration. Therefore, a disadvantage of the Offer is that those Shareholders who accept the Offer, will forego the opportunity to

participate in any potential benefits and access to new projects and ventures that the new Board may bring.

(d) The Offer Price is less than the offer price of the Alternative Offer.

On 23 February 2017, MHM received a bidder's statement from Cadmon.

Pursuant to this Alternative Offer, Cadmon offers Shareholders \$0.0435 cash for each Share they hold. The Alternative Offer is subject to the same conditions as the Offer by Mercantile OFM. It is not subject to any funding conditions.

As the offer price under the Alternative Offer is higher than the Offer Price under Mercantile OFM's Offer, and is otherwise on the same conditions, the Board considers that the Alternative Offer is a Superior Offer.

The terms of Mercantile OFM's Offer provide that the Offer Price is final and will not be increased (see clause 9 of Appendix A of the Bidder's Statement).

(e) The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders of MHM.

The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to the Shareholders of MHM. The Independent Expert's Report is set out in Annexure 1.

(f) If you accept the Offer, you are unable to accept a Superior Offer if one emerges.

Accepting the Offer will deny you the benefit of any subsequent Superior Offer by another bidder should one emerge during the Offer Period, unless you become entitled to withdraw your acceptance or the Offer lapses. You will also give up your right to deal with your Shares whilst the Offer remains open.

As the offer price under the Alternative Offer is higher than the Offer Price under Mercantile OFM's Offer, and is otherwise on the same conditions, the Board considers that the Alternative Offer is a Superior Offer.

As at the date of this Target's Statement, the Directors are not aware of a proposal by anyone to make an offer which is superior to the Alternative Offer.

The terms of the Offer provide that the Offer Price is final and Mercantile OFM may not increase the Offer Price under the Offer (see clause 9 of Appendix A of the Bidder's Statement).

(g) There may be tax implications for you if you accept the Offer.

No capital gains scrip-for-scrip rollover relief is available under Mercantile OFM's cash Offer.

If you are an Australian resident for tax purposes, you may stand to make a capital gain by accepting the Offer and depending on your personal circumstances, you may be required to pay tax (in cash) on any gains.

See Section 10.1 for an overview of the tax consequences for accepting the Offer.

1.5 Further developments

Should there be any developments during the Offer Period (for example, the emergence of a Superior Offer from another bidder) which would alter the Directors' recommendations in relation to the Offer, you will be notified through an ASX announcement and/or a supplementary target's statement.

2. Important information for the Shareholders to consider

2.1 Information about MHM

Section 7 contains detailed information about MHM.

2.2 Information about Mercantile OFM

Section 2 of the Bidder's Statement contains detailed information about Mercantile OFM.

2.3 Mercantile OFM's funding of Offer

Section 5 of the Bidder's Statement contains details of the arrangement that Mercantile OFM has made in relation to the funding of the cash consideration payable under the Offer.

2.4 Conditions of the Offer

The Offer is conditional upon no Prescribed Occurrences happening during the period commencing on the Announcement Date and ending on the expiry of the Offer Period (each being a separate Condition).

Mercantile OFM may waive any Condition under the Corporations Act.

The Prescribed Occurrences and details of the Conditions are set out in full in clause 7 of Appendix A of the Bidder's Statement.

2.5 Minority ownership consequences

If the Offer becomes or is declared unconditional and Mercantile OFM:

- (a) does not acquire all of the Shares, but acquires the majority of the Shares (i.e. more than 50% of Shares); and
- (b) is not able to compulsorily acquire the rest of the Shares under the Corporations Act,

there may be a number of possible implications for Shareholders, including:

- (a) Mercantile OFM will be in a position to cast the majority of votes at a general meeting of MHM. This will enable Mercantile OFM to control the composition of MHM's board of directors and senior management, determine MHM's fundraising plans and dividend policy as well as to control the strategic direction of MHM;
- (b) if Mercantile OFM acquires 75% or more of the Shares it may be able to pass special resolutions at meetings of MHM's Shareholders. This may enable Mercantile OFM to, among other things, change MHM's Constitution;
- (c) Mercantile OFM has indicated that if it acquires 50.1% or more but less than 90% of the Shares:
 - (i) subject to the outcome of the Review, it proposes to seek the appointment of a majority of Mercantile OFM nominees to the Board

although it has not made a decision as to who would be nominated for appointment;

- (ii) it will seek to remove MHM from the official list of ASX, if Shareholders have not already approved delisting prior to the close of the Offer; and
 - (iii) it may, at some later time, acquire further Shares in a manner consistent with the Corporations Act including compulsory acquisition under Part 6A.2 of the Corporations Act if it becomes so entitled; and
- (d) the liquidity of Shares may be affected, particularly if MHM is removed from the official list of ASX.

Section 4 of the Bidder's Statement sets out the details of Mercantile OFM's intentions.

2.6 Compulsory acquisition

Mercantile OFM has indicated in section 4.4 of its Bidder's Statement that, if it is entitled to do so, it will proceed to compulsorily acquire all remaining Shares.

See Section 5.9 for further information.

2.7 Dividend issues for Shareholders

MHM has not paid a dividend to Shareholders since listing on the ASX. The Directors consider it unlikely that MHM will pay dividends in the 2017 or 2018 financial years.

2.8 Superior Offer received

On 23 February 2017, MHM received a bidder's statement from Cadmon.

Pursuant to this Alternative Offer, Cadmon offers Shareholders \$0.0435 cash for each Share they hold. The Alternative Offer is subject to the same conditions as the Offer by Mercantile OFM. It is not subject to any funding conditions.

As the offer price under the Alternative Offer is higher than the Offer Price under Mercantile OFM's Offer, and is otherwise on the same conditions, the Board considers that the Alternative Offer is a Superior Offer.

The terms of Mercantile OFM's Offer provide that the Offer Price is final and will not be increased (see clause 9 of Appendix A of the Bidder's Statement).

2.9 Considerations in favour of accepting the Offer

Mercantile OFM has set out its views on the considerations in favour of accepting the Offer in their Bidder's Statement.

The Directors encourage you to review the Bidder's Statement in its entirety.

2.10 Taxation consequences of a change in control in MHM

The taxation consequences of accepting the Offer depends on a number of factors and will vary depending on your particular circumstances. A general outline of the

Australian taxation considerations of accepting the Offer is set out in Section 10.1 of this Target's Statement and section 7 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement and the Target's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

2.11 Company announcements

MHM is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules. Copies of announcements lodged with ASX can be obtained from ASX's website at www.asx.com.au under the code "MHM" or from MHM's website at www.mhmmetals.com.

A list of announcements made by MHM to ASX between 30 September 2016 (the date of release of MHM's annual report for the financial year end 30 June 2016) and the date of this Target's Statement is set out in Annexure 2. This information may be relevant to your assessment of the Offer.

3. Frequently asked questions

This Section is not intended to address all issues relevant to you. This Section should be read together with all other parts of this Target's Statement.

Question	Answer
What is the Offer for my Shares?	Mercantile OFM has made an off-market offer of \$0.04 for each of your Shares.
What choices do I have as a Shareholder?	As a Shareholder you can: <ul style="list-style-type: none">• REJECT the Offer by doing nothing. The Directors recommend that you REJECT the Offer by doing nothing; or• accept the Offer and sell your Shares off-market at the Offer Price; or• sell your Shares off-market to a third party, or if the Shares resume trading on ASX, on-market (unless you have previously accepted the Offer and not validly withdrawn your acceptance).
What are the Directors recommending?	Your Directors unanimously recommend that you REJECT Mercantile OFM's Offer. The reasons for the Directors' recommendation are set out in this Target's Statement.
What is the Independent Expert's conclusion?	The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders. The Independent Expert's Report is set out in Annexure 1.
How do I accept the Offer?	To accept the Offer, you should carefully follow the instructions in section 4.1(c) and clause 4 of Appendix A of the Bidder's Statement.
What do the Directors intend to do with their Shares?	The Directors do not hold a Relevant Interest in any Shares.
What happens if a Superior Offer is made by a third party or if the Shares resume trading on the ASX?	If you accept the Offer and you have not validly withdrawn your acceptance: <ul style="list-style-type: none">• you will not be able to participate in any Superior Offer made by a third party; and• you will not be able to sell your Shares at a higher price quoted on the ASX if the Shares resume trading.
What are the consequences of accepting the Offer now?	If you accept the Offer now and do not validly withdraw your acceptance, you will not be able to accept a Superior Offer from any other bidder if such an offer is made or benefit from any higher

Question	Answer
	price on the ASX if the Shares resume trading.
If I accept the Offer now, can I withdraw my acceptance?	<p>Yes, however you may only withdraw your acceptance if the Offer is still subject to any of the Conditions and Mercantile OFM varies the Offer in a way that extends by more than one month the time it has to provide consideration under the Offer.</p> <p>See Section 5.7 for further detail.</p>
Can Mercantile OFM vary the Offer?	<p>Yes. Mercantile OFM can vary the Offer by waiving any of the Conditions or extending the Offer Period.</p> <p>However, the Offer Price is final and Mercantile OFM cannot increase the Offer Price. See clause 9 of Appendix A to the Bidder's Statement.</p> <p>See Section 5.5 for further detail.</p>
What are the conditions of the Offer?	<p>The Offer is conditional upon no Prescribed Occurrences happening during the period commencing on the Announcement Date and ending on the expiry of the Offer Period (each being a separate Condition).</p> <p>See Section 5.3 for further detail.</p>
Can I be forced to sell my Shares?	<p>You <u>cannot</u> be forced to sell your Shares unless Mercantile OFM proceeds to compulsory acquisition. If Mercantile OFM proceeds to compulsory acquisition you will receive the same consideration as if you had accepted the Offer.</p> <p>See Section 5.9 and clause 7 of Appendix A to the Bidder's Statement for further detail.</p>
Will there be any costs associated with accepting the Offer?	<p>No. No brokerage or stamp duty will be payable as a result of your acceptance of the Offer. You may incur brokerage fees if you instruct your Controlling Participant to accept the Offer on your behalf.</p> <p>See section 1.5 and clause 11 of Appendix A to the Bidder's Statement.</p>
When does the Offer close?	<p>The Offer is presently scheduled to close at 7pm (AEST) on 13 March 2017, but the Offer Period can be extended in certain circumstances in accordance with the Corporations Act. See Section 5.5 for details on extending the Offer Period.</p>
What are the tax implications of accepting the Offer?	<p>A general outline of the tax implications for certain Australian resident Shareholders of accepting the Offer is set out in Section 10.1 of this Target's Statement and section 7 of the Bidder's Statement. You should not rely on these outlines as advice on your own affairs. They do not deal with the position of particular Shareholders. You should seek your</p>

Question	Answer
	own personal, independent financial and taxation advice before making a decision as to whether to accept or reject the Offer for your Shares.
Can overseas Shareholders accept the Offer?	The Offer is not registered in any jurisdiction outside Australia unless an applicable foreign law treats it as registered as a result of the Bidder's Statement being lodged with ASIC. It is your sole responsibility to satisfy yourself that you are permitted by any foreign law applicable to you to accept the Offer. See clause 12 of Appendix A of the Bidder's Statement.

4. Your choices as a Shareholder

4.1 Directors recommend that you **REJECT** the Offer

In considering whether to accept the Offer, the Directors encourage you to read this Target's Statement and seek professional advice if you are unsure as to whether or not accepting the Offer is in your best interests, taking into account your individual circumstances.

The Bidder's Statement contains important information which you are urged to read carefully. MHM has not undertaken investigations to verify the accuracy or completeness of the information contained in the Bidder's Statement and neither MHM nor its Directors or advisers makes any representation as to the accuracy or completeness of information contained in the Bidder's Statement. To the fullest extent permitted by law, each of those parties disclaims liability to any person who acts in reliance of that information.

If you would like further information on MHM before making a decision about the Offer, you are encouraged to exercise your right under the Corporations Act to obtain from ASIC copies of all documents lodged by MHM with ASIC or ASX. You can also find information about MHM and its activities on the MHM website at www.mhmmetals.com.

During the Offer Period you have the following choices:

(a) **REJECT the Offer and retain your Shares**

If you wish to retain your Shares, you need **TAKE NO ACTION** in relation to the Offer.

You should note that if Mercantile OFM acquires 90% of Shares and the compulsory acquisition provisions of the Corporations Act are satisfied, it will be entitled to compulsorily acquire the Shares that it does not already own.

You should also note that if Mercantile OFM acquires more than 50% but less than 90% of Shares, you will be exposed to the risks associated with being a minority Shareholder. See Section 2.5 for further details.

If you reject the Offer, you may later elect to accept the Alternative Offer.

(b) **Sell your Shares off-market or, if the Shares resume trading on ASX, on-market**

During a takeover, shareholders in a target company can generally still sell their shares on the market for cash. However, Shares have been suspended from trading since 14 July 2016 and will remain suspended from trading on market until MHM re-complies with Chapters 1 and 2 of the Listing Rules.

As at the date of this Target's Statement, the Directors do not anticipate that the Shares will resume trading during the Offer Period (unless the Offer Period is extended significantly).

If MHM re-complies with Chapters 1 and 2 of the Listing Rules and the Shares resume trading, you can sell your Shares on-market for cash if you have not already accepted the Offer or validly withdrawn your acceptance.

If you sell your Shares on-market or off-market, you will receive payment sooner than if you accept the Offer, while it remains subject to outstanding Conditions.

If you are considering selling your Shares off-market, you should contact your broker for information on how to do so and your tax adviser to determine your tax implications from such a sale.

If you sell your Shares on- or off-market, you:

- (i) will lose your ability to accept the Offer and any Superior Offer from another bidder;
- (ii) will lose the opportunity to receive future returns from MHM;
- (iii) may be liable for capital gains tax on the sale (refer to Section 10.1 for further details); and
- (iv) may incur a brokerage fee.

Please note that you cannot sell your Shares on- or off-market if you have accepted the Offer and have not validly withdrawn your acceptance.

(c) ACCEPT the Offer

The Directors unanimously recommend that you reject the Offer. However, if you wish to accept the Offer, you should follow the instructions in section 1.6 and clause 4 of Appendix A to the Bidder's Statement.

5. Key features of the Offer

5.1 Off-market takeover bid

Mercantile OFM has made an off-market takeover bid to buy all Shares that exist or will exist any time during the Offer Period, other than those in which Mercantile OFM has a Relevant Interest in as at the date of the Bidder's Statement.

The consideration being offered by Mercantile OFM is \$0.04 for each Share.

5.2 Offer Period

Unless the Offer is extended or withdrawn, it is open for acceptance from 13 February 2017 until 7pm (AEST) on 13 March 2017. The circumstances in which Mercantile OFM may vary or withdraw its Offer are set out in Sections 5.5 and 5.6 respectively.

5.3 Conditions of the Offer

The Offer is conditional upon no Prescribed Occurrences happening during the period commencing on the Announcement Date and ending on the expiry of the Offer Period (each being a separate Condition).

The Prescribed Occurrences and details of the Conditions are set out in full in clause 7 of Appendix A of the Bidder's Statement.

Mercantile OFM may waive any Condition under the Corporations Act.

See Section 5.6 for an explanation of the circumstance in which Mercantile OFM may withdraw unaccepted Offers.

5.4 Consequences if the Conditions are not satisfied

If any of the Conditions are not satisfied or waived before the Offer closes, the Offer will lapse. The means that:

- (a) if you have accepted the Offer, your acceptance is void and you will continue to be a Shareholder, free to deal with your Shares; or
- (b) if you have not accepted the Offer, you will continue to be a Shareholder, free to deal with your Shares.

5.5 Variation of the Offer

Mercantile OFM may vary its Offer in accordance with the Corporations Act by:

- (a) waiving a Condition of the Offer; or
- (b) extending the Offer Period.

Any variation to the Offer must be announced on ASX.

The terms of the Offer provide that the Offer Price is final and cannot be increased by Mercantile OFM (clause 9 of Appendix A to the Bidder's Statement).

5.6 Withdrawal of Offer

Mercantile OFM may be able to withdraw the Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.

5.7 Limited rights to withdraw your acceptance

You have only limited rights to withdraw your acceptance of the Offer. You may withdraw your acceptance of the Offer only if the Offer is still subject to a Condition and Mercantile OFM varies the Offer in a way that postpones, for more than one month, the time when Mercantile OFM has to meet its obligations under the Offer.

If you have accepted the Offer and any of the Conditions have not been satisfied or waived by the end of the Offer Period (which may be extended), the Offer will lapse and you will be free to deal with your Shares.

5.8 When you will receive payment if you accept the Offer

Payment for acceptances will be received by the later of:

- (a) the date 1 month after you accept the Offer; and
- (b) 1 month after the date the Offer becomes or is declared unconditional,

but in any event (assuming the Offer becomes or is declared unconditional) no later than the date 21 days after the end of the Offer Period.

5.9 Compulsory acquisition

As at 21 February 2017, Mercantile OFM had a Relevant Interest in 1.31% of the Shares on issue.

Mercantile OFM has indicated in section 4 of its Bidder's Statement that if it satisfies the required thresholds it intends to compulsorily acquire any remaining Shares.

Mercantile OFM will be entitled to compulsorily acquire any Shares in respect of which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period, Mercantile OFM and its associates have a Relevant Interest in at least 90% (by number) of the Shares.

The consideration per Share payable to Shareholder whose Shares are compulsorily acquired is the same as that payable under the Offer.

If the 90% threshold is met, Mercantile OFM will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the Offer. Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Shareholder to establish to the satisfaction of a Court that the terms of the relevant Offer do not represent "fair value" for their Shares. If compulsory acquisition occurs, Shareholders who have their Shares compulsorily acquired are likely to be issued their consideration approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

It is also possible that Mercantile OFM will, at some time after the end of the Offer Period, become the beneficial holder of 90% or more of the Shares. Mercantile OFM would then have rights to compulsorily acquire Shares not owned by it within six months of becoming the holder of 90% or more of the Shares. Mercantile OFM's

price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

6. Risks

6.1 Risks associated with Shares

In considering the Offer, Shareholders should be aware of the risks related to MHM, its business and assets.

MHM is subject to a number of investment risk factors, both specific to its business activities and of a general nature which may affect the future operating and financial performance of MHM and the value of Shares.

Many of the risks are outside the control of MHM and the Directors, and there can be no certainty that MHM's objectives or anticipated outcomes will be achieved.

The following list is not intended to be an exhaustive exploration of the risk factors to which MHM is exposed.

6.2 Risks Specific to MHM

(a) No current undertaking

MHM currently has no main undertaking and as a result is currently not generating any income. There is a risk that MHM will not be able to identify a suitable new opportunity that will increase Shareholder value in the short term or at all.

(b) Minority ownership risks

Mercantile OFM may acquire more than 50% but less than 90% of Shares pursuant to the Offer. This has a number of possible implications, including those set out in Section 2.5.

(c) Illiquid Shares

MHM is presently admitted to the official list of ASX however the Shares have been suspended from trading on the ASX since 14 July 2016, and will remain suspended until MHM re-compiles with Chapters 1 and 2 of the Listing Rules. There is a risk that MHM will not re-comply with Chapters 1 and 2 of the Listing Rules in the near future or at all, and that MHM will remain suspended from trading. In which case, Shareholders will have limited means by which to dispose of their Shares.

(d) Value of MHM's ASX listing

The value of MHM's ASX listing, which might be realised via a back-door listing in partnership with another entity, may be adversely affected by legislative and regulatory changes, including changes to ASX policy and the Listing Rules in relation to back-door listings.

(e) Reliance on Board

The previous experience and track record of the Directors is a key reason for the possibility that MHM may be able to identify alternate opportunities that provide value to Shareholders in excess of the Offer consideration.

While it is not currently anticipated, one or any number of these key Directors may cease their engagement with MHM. The loss of any such person could potentially have a detrimental impact on MHM until the skills that are lost are adequately replaced.

6.3 General Securities Risks

(a) Economic risks

Adverse changes in economic conditions such as interest rates, exchange rates, inflation, government policy, international economic conditions and employment rates, amongst others, are outside MHM's control and have the potential to have an adverse impact on MHM and its operations.

(b) Share market conditions

If MHM resumes trading on the ASX, share market conditions may affect the value of MHM's quoted securities regardless of MHM's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of the Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. Neither MHM nor the Directors warrant the future performance of MHM or any return on an investment in MHM.

(c) Regulatory Risks

Changes in relevant taxes, legal and administrative regimes, accounting practice and government policies in Australia may adversely affect the financial performance of MHM.

6.4 Investment Speculative

- (a) The above list of risk factors ought not to be taken as exhaustive of the risks faced by MHM or by investors in MHM. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of MHM and the value of the Shares of MHM.
- (b) You should be cognisant of all the above risks when making your decision whether to accept or reject the Offer. Accepting the Offer will mean that you will minimise your exposure to the above risks by receiving the Offer Price, whereas rejecting the Offer will see you remain exposed to all the above risks on an ongoing basis.

7. Information relating to MHM

7.1 Background of MHM

MHM was incorporated on 1 March 2007 as 'Macquarie Mining Ltd'. The Company subsequently changed its name to 'Macquarie Harbour Mining Ltd' on 22 May 2007 and was admitted to the official list of ASX on 12 December 2007.

MHM was established for the purpose of acquiring and developing a portfolio of exploration projects contained within Tasmania.

In December 2010, MHM changed its name to 'MHM Metals Ltd' to reflect the Company's transition to focus on aluminium recycling salt slag processing (**Aluminium Business**).

MHM focused on its Aluminium Business until 30 September 2015, when the Moolap plant was closed. On 23 December 2016, the Company announced that it had settled the sale of the property, plant and equipment at 80 Buckley Grove, Moolap, for total consideration of \$1. The buyer assumed all responsibility for all potential liabilities attaching to the property. This disposal finalised the Company's interests in the Moolap region and in the Aluminium Business.

On 14 July 2016, MHM's securities were suspended from official quotation on ASX pending a re-compliance with Chapters 1 and 2 of the Listing Rules.

The Company's last remaining non-current assets were the Russellville property and a luxury yacht which had been provided as security to the Company as part of the Federal Court's determination that its former managing director, Frank Rogers, had breached his duties to the Company. The Company announced the settlement of the sale of the Russellville property on 12 April 2016, and announced the settlement of the sale of the luxury yacht on 12 January 2017.

On 12 July 2016, it was announced that MHM had become a substantial shareholder of Kin Mining NL (**Kin**). On 19 July 2016 the Company announced that it had ceased to be a substantial holder of Kin, however it still holds 5,139,438 shares in Kin.

7.2 Company direction and Board changes

MHM has been focused on assessing new business opportunities capable of being its primary undertaking since winding down its aluminium operations.

On 21 December 2016, MHM announced that it was in discussions with Otsana Capital to assist MHM to identify and acquire a suitable business to facilitate the reinstatement of its shares to trading on the ASX.

Otsana Capital is a Western Australian based corporate advisory firm which specialises in restructuring and recapitalising ASX listed entities, as well as identifying and facilitating reverse takeovers (also known as back-door listings) and initial public offerings. It has been agreed that Otsana Capital will continue to work with MHM.

As part of these discussions, Otsana Capital proposed a complete Board change. Pursuant to this proposal, the existing Board members resigned effective immediately, and Messrs Faldi Ismail, Bryn Hardcastle and Nicholas Young were appointed to the Board.

Mr Ismail has also been appointed Chairman of the Board.

7.3 Board experience and success with back-door listing transactions

The current Directors of MHM have considerable experience as directors of companies that have undertaken back-door listings and have demonstrated an ability to realise value for shareholders through such transactions, as is further detailed below.

As noted in the Bidder's Statement, Mr Faldi Ismail (Non-Executive Chairman of MHM) is a director of Otsana Capital, and Mr Bryn Hardcastle (Non-Executive Director of MHM) is a director of Bellanhouse Legal.

Some recent examples of the Directors' experience with back-door listing transactions, as referred to in section 6.3 of the Bidder's Statement and include the following:

(a) Cre8tek Limited (ASX:CR8)

On 5 May 2016, Cre8tek Limited (previously named 'Marion Energy Limited') was suspended from official quotation on ASX.

On 17 November 2016, Cre8tek Limited was reinstated to official quotation on ASX following the successful completion of a back-door listing.

Mr Faldi Ismail and Mr Bryn Hardcastle are directors of Cre8tek Limited. Otsana Capital was engaged as the lead manager and corporate advisor for the back-door listing, and Bellanhouse Legal was engaged as the legal advisor for the back-door listing.

(b) Ookami Limited (ASX:OOK)

Mr Faldi Ismail and Mr Nicholas Young were appointed directors of Ookami Limited (previously named 'Advanced Engine Components Limited') on 5 June 2015.

On 5 February 2016, Ookami Limited was reinstated to official quotation on ASX following the successful completion of a back-door listing.

Otsana Capital was engaged as lead manager for the back-door listing.

(c) Dotz Nano Limited (ASX:DTZ)

On 17 November 2015, Dotz Nano Limited (previously named 'Northern Iron Limited') was suspended from official quotation on ASX.

On 14 November 2016, Dotz Nano Limited was reinstated to official quotation on ASX following the successful completion of a back-door listing.

Mr Faldi Ismail is a director of Dotz Nano Limited. Otsana Capital was engaged as the lead manager for the back-door listing. Bellanhouse Legal was engaged as the legal advisor for the company vended in to Dotz Nano Limited (Dotz Nano Ltd (Israel Registrar of Companies ID No. 515063790)).

In addition to the above examples, the current Board have experience with the following recent back-door listing transactions and initial public offerings:

- (a) the initial public offering of eSense Ltd (admitted to the official list of ASX on 10 February 2017;

- (b) **Xped Limited (ASX: XPE)**

On 4 March 2016, Xped Limited (previously named “Raya Group Limited”) was suspended from official quotation on the ASX.

On 5 April 2016, Xped Limited was reinstated to official quotation on ASX following the successful completion of a back-door listing.

Otsana Capital acted as corporate advisor for Raya Group Limited on the backdoor listing.

- (c) **Mareterram Limited (ASX: MTM)**

On 23 November 2015, Mareterram Limited (previously named “Style Limited”) was suspended from official quotation on the ASX.

On 6 January 2016, Mareterram Limited was reinstated to official quotation on the ASX following the successful completion of a back-door listing.

Mr Faldi Ismail was a director of Style Limited and was instrumental in facilitating the backdoor listing.

- (d) **Zenitas Health Limited (ASX: ZNT)**

On 23 June 2016, Zenitas Limited (previously named “BGD Corporation Limited”) was suspended from official quotation on the ASX.

On 13 January 2017, Zenitas Limited was reinstated to official quotation on the ASX following the successful completion of a back-door listing.

Mr Faldi Ismail and Mr Nicholas Young were directors of BGD Corporation Limited.

7.4 Mercantile OFM Takeover Proposal

On 15 December 2016 MVT, the parent company of Mercantile OFM, announced an intention to make an unsolicited takeover bid for the Company. The Company received the Bidder's Statement from Mercantile OFM on 10 January 2017.

7.5 Cadmon Takeover Proposal

On 9 February 2017, MHM received a notice of intention to make an off-market, cash takeover offer by Cadmon. The Company received Cadmon's bidder's statement on 23 February 2017.

7.6 Directors and Senior Management

The names and details of the Directors are as follows:

(a) **Mr Faldi Ismail - Non-Executive Chairman**

Qualifications - B Bus

Mr Ismail has significant experience working as a corporate advisor specialising in the restructure and recapitalisation of a wide range of ASX-listed companies having many years of investment banking experience covering a wide range of sectors. He has significant cross-border experience, having advised on numerous overseas transactions including capital raisings, structuring of acquisitions and joint ventures in numerous countries.

Mr Ismail is the founder and operator of Otsana Capital, a boutique advisory firm specialising in mergers and acquisitions, reverse takeovers, capital raisings and initial public offerings. Mr Ismail is currently a non-executive director of dual listed Asiamet Resources Limited (previously Kalimantan Gold Corporation Limited) (TSXV/AIM:ARS), Dotz Nano Limited (ASX:DTZ), WHL Energy Limited (ASX:WHN), Cre8tek Limited (ASX:CR8) and Ookami Limited (ASX:OOK).

(b) **Mr Bryn Hardcastle - Non Executive Director**

Qualifications - BA, LLB

Mr Hardcastle is an experienced corporate lawyer specialising in corporate, commercial and securities law. He is the managing director of Bellanhouse Legal which predominantly advises on equity capital markets, re-compliance transactions and takeovers across a variety of industries. Mr Hardcastle has extensive international legal experience and has advised on numerous cross border transactions. He also has experience acting as a non-executive director of ASX-listed companies.

Mr Hardcastle is also a non-executive director of Attila Resources Limited (ASX: AYA), Cre8tek Limited (ASX: CR8) and ServTech Global Holdings Ltd (ASX: SVT, to be listed).

(c) **Mr Nicholas Young - Non Executive Director**

Qualifications - B Comm, CA

Mr Young holds a Bachelor of Commerce, majoring in Accounting and Finance, is a Chartered Accountant and has completed the Insolvency Education Program at the Australian Restructuring Insolvency and Turnaround Association.

Mr Young commenced his career in the Corporate Restructuring division of an accounting firm and has gained valuable experience in Australia and Southern Africa, across a wide range of industries, including mining and exploration, mining services, renewable energy, professional services, manufacturing and transport. Mr Young has been involved in the recapitalisation of various ASX-listed companies.

7.7 Interests of Directors in Shares

All Directors have decided to **REJECT** the Offer prior to the date of this Target's Statement.

No Shares or other securities in the Company are held by or on behalf of any of the Directors as at the date of this Target's Statement.

No Director has acquired or disposed of any Shares within the four month period immediately prior to the date of this Target's Statement.

7.8 No benefits to Directors

No benefit (other than a benefit permitted under sections 200E or 200F of the Corporations Act) is proposed to be given to a Director (or anyone else) in connection with the Director's retirement as a Director (or executive) of MHM.

7.9 Other agreements or arrangements with Directors

There are no other agreements or arrangements made between a Director and any other person in connection with or conditional upon the outcome of the Offer.

7.10 Interests of Directors in Mercantile OFM

No Director has a relevant interest in any securities of Mercantile OFM.

No Director acquired or disposed of any securities in Mercantile OFM within the four month period immediately prior to the date of this Target's Statement.

No Director has any interest in any contract entered into by Mercantile OFM.

7.11 Key Statistics

Set out below are some key ratios and statistics extracted from MHM's audited financial statements for the years ended 30 June 2016 and 30 June 2015.

Year Ended 30 June	2016	2015
Basic earnings/ (loss) per Share	3.081	(3.030)
Share Price at year end	\$0.030	\$0.017

7.12 Summary of historical financial information

The summary historical financial information below has been extracted from MHM's audited financial statements for the years ended 30 June 2016 and 30 June 2015 and does not take into account the effect of the Offer.

Copies of MHM's annual reports from which the financial information was extracted can be found on the company's website at www.mhmmetals.com. These reports also contain details of MHM's accounting policies. Shareholders without internet access can obtain copies of these reports by contacting the Company Secretary of MHM on +61 3 9692 7222.

Statement of Financial Position	2016 (\$)	2015 (\$)
Total Assets	9,158,174	5,415,821

Statement of Financial Position	2016 (\$)	2015 (\$)
Total Liabilities	1,217,760	1,957,818
Total Equity	7,940,414	3,458,003

Income Statement	2016	2015
Net interest Income	365,498	32,834
Other income	5,698,414	493,520
Expenses	1,159,014	2,201,600
Profit/(Loss) for the year from continuing operations	4,904,898	(1,675,246)

Statement of Cash Flows	2016	2015
Net Cash Flows from Operating Activities	5,623,402	(1,044,130)
Net Cash Flows from Investing Activities	447,897	-
Net Cash Flows from Financing Activities	38,612	-

Statement of Cash Flows	2016	2015
Net Increase / (Decrease) in Cash and Cash Equivalents	6,109,991	(1,044,130)
Beginning Cash and Cash Equivalents	1,357,966	2,403,479
Effects of exchange rate changes	31,897	(1,383)
Ending Cash and Cash Equivalents	7,499,774	1,357,966

7.13 No material change in financial position

MHM's last published financial statements are for the six months ended 30 June 2016, as set out in its Annual Report lodged with ASX on 30 September 2016. Except as disclosed in this Target's Statement and in any announcement made by MHM to ASX since 30 September 2016, the Directors are not aware of any material change to the financial position of MHM since 30 June 2016.

In particular, the Company refers to its announcement of 12 January 2017 regarding the receipt of USD \$380,000 following the sale of the Executive 73 vessel.

7.14 Publicly available information

MHM is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules of ASX. Copies of announcements lodged with ASX can be obtained from the

ASX's website at www.asx.com.au under the code "MHM" or from MHM's website at www.mhmmetals.com.

A list of announcements made by MHM to ASX between 30 September 2016 (the date of release of MHM's annual report for the financial year end 30 June 2016) and the date of this Target's Statement is set out in Annexure 2. This information may be relevant to your assessment of the Offer.

Further announcements about developments on the Offer will continue to be made publically available on MHM's website at www.mhmmetals.com after the date of his Target's Statement.

7.15 Issued Capital

MHM's issued capital comprises:

Number of Shares	Number of Options ¹
136,228,616	600,000

7.16 Substantial Shareholders

The following persons are the registered holders of over 5% of the Shares as at the date of this Target's Statement:

Shareholder	Shares	%
Invia Custodian Pty Ltd <NJ Family A/C Share A/C>	14,592,325	10.71
Mr Paul Kopejtka & Mrs Karen Kopejtka	9,651,011	7.08

¹ The MHM options on issue have exercise prices of between \$1.00 and \$1.35 per share and expiry dates between 18 July 2017 and 13 November 2017.

8. Information relating to Mercantile OFM

8.1 Disclaimer

The following information about Mercantile OFM has been prepared by MHM using publicly available information, including information in the Bidder's Statement, and has not been independently verified. Accordingly, MHM does not, subject to the Corporations Act, make any representation or warranty, express or implied as to the accuracy or completeness of this information.

The information on Mercantile OFM in this Target's Statement should not be considered comprehensive.

8.2 Overview of Mercantile OFM and its principal activities

Mercantile OFM is a wholly owned subsidiary of Mercantile Investment Company Ltd (MVT). MVT is an ASX listed investment company trading under ASX code "MVT".

8.3 Publicly available information

MVT is a company listed on ASX and is subject to the periodic and continuous disclosure requirements of the Listing Rules and the Corporations Act. A substantial amount of information on MVT is publicly available and may be accessed by referring to MVT on www.asx.com.au.

8.4 Further information

Further information about MVT and Mercantile OFM can be found on Mercantile OFM's website: www.mercantileinvestment.com.au.

9. Disadvantages associated with rejecting the Offer

Although your Directors unanimously recommend that you REJECT the Offer, there may be a number of disadvantages in doing so. A summary of some of those disadvantages is set out below.

This summary is not exhaustive and you should have regard to your own personal investment objectives and financial circumstances, and should consult your professional advisers, before deciding whether or not to accept Mercantile OFM's Offer.

9.1 The Offer provides the opportunity for all Shareholders to realise their investment in MHM

Under the Offer, all Shareholders have an opportunity to realise their investment in MSM for a certain cash consideration (subject to the Conditions being satisfied or waived).

Accepting the Offer removes the risks associated with continuing to hold Shares, including risks associated with MHM's business as well as general industry and market risks including those outlined in Section 6.

Further, there is currently a limited market for Shares. While your Directors are hopeful that MHM will re-comply with Chapters 1 and 2 of the Listing Rules and that trading of Shares will resume on the ASX, there can be no guarantee that this will occur in the short term or at all. Accordingly, Mercantile OFM's Offer represents an opportunity for Shareholders to liquidate their entire holding of Shares.

9.2 Your Shares may be compulsorily acquired and there may be adverse consequences associated with not accepting Mercantile OFM's Offer

If Mercantile OFM becomes entitled to compulsorily acquire your Shares, it intends to do so.

Accordingly, even if you do not accept the Offer but a sufficient number of other Shareholders do, Mercantile OFM may nevertheless compulsorily acquire your Shares.

If your Shares are compulsorily acquired, you will still receive the Offer Price for your Shares but at a later date than you would have received it if you had accepted the Offer.

Further, if you do not accept the Offer and Mercantile OFM obtains a controlling interest in MHM, Mercantile OFM has indicated it intends to seek to remove all Shares from the official list of ASX, and as a result your ability to realise your investment in MHM in the future may be limited.

10. Other material information

10.1 Taxation Implications

The following is intended only as a general guide to the income tax position under current Australian income tax law and administrative practice as at the date of this Target's Statement. Income tax is a complex area of law and the income tax implications for you may differ from those detailed below, depending on your particular circumstances. As these statements are of a general nature only it is recommended that you obtain your own independent professional advice in respect of the Australian income tax implications of the Offer.

The following is an overview of the likely Australian income tax implications as a consequence of the takeover bid for an Australian tax resident or non-Australian tax resident Shareholder who holds their Shares on capital account.

The following may not apply to certain Shareholders, such as if you are a dealer in shares, you hold Shares on revenue account or as trading stock, if you are an insurance company or a collective investment scheme, or if Division 230 of the *Income Tax Assessment Act 1997* (Cth) (**ITAA 1997**) applies to you and you have made an election to apply certain methods to calculating gains and losses. In addition, the following may not apply to you if you acquired your shares as a result of an employment or services arrangement. Such persons may be subject to special rules or any gain on the disposal of their Shares may be assessed as ordinary income. As outlined above, it is recommended that you obtain specific taxation advice concerning your specific circumstances.

The following may also not apply to non-Australian tax resident Shareholders. The Australian income tax implications for non-Australian resident Shareholders are complex and will depend upon their own specific circumstances. Non-Australian tax resident Shareholders may also have tax implications in their country of Tax residence.

(a) Australian tax resident Shareholders

The transfer of Shares to Mercantile OFM pursuant to the Offer will trigger a capital gains tax (**CGT**) event for you. Australian tax resident Shareholders may make a capital gain or a capital loss in respect of this event.

You may make a capital gain equal to the capital proceeds received (the cash consideration received from Mercantile OFM) less the cost base of your Shares. The cost base of your Shares is generally the cost of their acquisition plus certain other amounts associated with their acquisition and disposal such as brokerage or stamp duty. We recommend you obtain specific taxation advice concerning this.

If you are an individual, trustee of a trust or a complying superannuation entity, and you acquired your Shares at least 12 months prior to accepting the Offer, you may be entitled to concessional discount CGT treatment under Division 115-A of the ITAA 1997 in respect of a capital gain (based on meeting a number of conditions). This will depend upon your individual circumstances. We recommend you obtain specific taxation advice concerning this.

If the reduced cost base of your Shares is greater than the capital proceeds you received, you may realise a capital loss equal to the difference. A

capital loss may be applied to reduce a capital gain in the same or a future tax year.

(b) Non-Australian tax resident Shareholders

Non-Australian tax resident Shareholders that hold Shares on capital account may only be subject to Australian CGT upon disposal of their Shares where the following conditions are met:

- (i) the non-Australian tax resident Shareholder, together with its associates, holds 10 per cent or more of MHM's issued shares at the time of the disposal or for any 12 month period in the 24 months prior to disposal; and
- (ii) more than 50 per cent of the market value of the assets of MHM is represented (directly or indirectly) by real property interests or mining rights in respect of certain resources in Australia.

If CGT applies, concessional CGT treatment under Division 115 of the ITAA 1997 (general discount) is not available to non-Australian tax residents in relation to the disposal of Shares acquired after 8 May 2012. We recommend you obtain specific taxation advice concerning this.

10.2 Material Litigation

As at the date of this Target's Statement, MHM is not involved in any material litigation.

10.3 Consents

The following persons have given, and have not before the date of issue of this Target's Statement withdrawn, their consent to:

- (a) be named in this Target's Statement in the form and content in which they are named; and
- (b) the inclusion of other statements in this Target's Statement which are based on or referable to statements made in the reports or statements noted next to their names, or which are based on or referable to other statements made by those persons, in the form and context in which they appear:

Name of Person	Capacity	Reports or Statements
Mr Faldi Ismail, Mr Bryn Hardcastle, and Mr Nicholas Young	Directors	Statements made by, or statements based on the statements made by, the Directors
Bellanhouse Legal	Legal advisor to MHM	N/A
BDO Corporate Finance (WA) Pty Ltd	Independent Expert	Independent Expert's Report
Security Transfer Australia Pty Ltd	MHM's share registry	N/A

Each of the persons named above:

- (a) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this Section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules), including the Bidder's Statement. Pursuant to this Class Order, the consent of persons to whom such statements are attributed to is not required for the inclusion of those statements in the Target's Statement.

Any Shareholder who would like to receive a copy of any of the documents (or parts of the documents) that contain the statements which have been included pursuant to ASIC Class Order 13/521 may obtain a copy free by writing to MHM's Company Secretary.

Copies of all announcements by MHM may also be obtained from its website at www.mhmmetals.com or from ASX's website www.asx.com.au under the code "MHM".

Additionally, as permitted by ASIC Class Order 13/523, this Target's Statement may include or be accompanied by statements:

- (a) fairly representing a statement by an official person; or
- (b) from a public official document or a published book, journal or comparable publication.

Pursuant to that Class Order, the consent of persons to whom such statements are attributed is not required for inclusion of those statements in this Target's Statement.

10.4 No Other Material Information

There is no other information that Shareholders or their professional advisers would reasonably require to make an informed assessment on whether to accept the Offer, being information which:

- (a) is reasonable for Shareholders and their professional advisers to expect to find in this Target's Statement; and
- (b) is known to any of the Directors.

In deciding what information should be included in this Target's Statement, the Directors have had regard to, amongst other things, the matters which Shareholders (or their professional advisers) may reasonably be expected to know, including information contained in documents previously sent to Shareholders and information available from public sources such as the ASX, ASIC or MHM's website at www.mhmmetals.com.

11. Authorisation

Mr Faldi Ismail, the Chairman of MHM, is authorised to sign this Target's Statement pursuant to a resolution passed at a meeting of directors held on 27 February 2017.

A handwritten signature in black ink, appearing to read 'Faldi Ismail', is positioned above the printed name.

Mr Faldi Ismail
Non-Executive Chairman
Dated: 27 February 2017

12. Glossary of terms

12.1 Glossary

In this Target's Statement, unless a contrary intention appears, the following expressions have the following meanings:

AEST means Australian Eastern Standard Time.

Alternative Offer means the offer made by Cadmon to acquire all of the Shares on the terms set out in its bidder's statement.

Announcement Date means 15 December 2016 being the date on which Mercantile OFM announced that it intended to undertake an off-market takeover bid for MHM.

ASIC means Australian Securities and Investment Commission.

ASX means ASX Limited ACN 008 624 691 trading as Australian Securities Exchange.

ASX Settlement means ASX Limited ABN 98 008 504 532.

ASX Settlement Operating Rules means the settlement rules of ASX Settlement.

Bidder's Statement means the replacement bidder's statement of Mercantile OFM dated 30 January 2017 which was served on MHM on 30 January 2017.

Board means the board of directors of MHM.

Business Day means a day on which banks are open for general banking business in Melbourne (not being a Saturday, Sunday or public holiday in that place).

Cadmon means Cadmon Ventures Pty Ltd ACN 617 176 253.

CHESS means the Clearing House Electronic Sub-register System, which provides for electronic share transfer in Australia.

CHESS Holding means a holding of Shares on the CHESS sub-register of MHM.

Conditions means the conditions to the Offer as described in clause 7 of Appendix A to the Bidder's Statement.

Controlling Participant means the broker who is designated as the controlling participant for Shares in a CHESS Holding in accordance with the ASX Settlement Operating Rules.

CGT means capital gains tax.

Competing Proposal means any proposal or transaction, which, if completed, would mean a person (other than Mercantile OFM or any associate of Mercantile OFM) would:

- (a) acquire control of MHM, within the meaning of section 50AA of the Corporations Act, or a material part of MHM's business; or
- (b) otherwise acquire or merge (including by a reverse takeover bid or dual listed MHM structure) with MHM.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of MHM and **Directors** means all of the directors of MHM.

Independent Expert means BDO Corporate Finance (WA) Pty Ltd.

Independent Expert's Report means the report of the Independent Expert set out in Annexure 1.

ITAA 1997 means *Income Tax Assessment Act 1997* (Cth).

Listing Rules means the listing rules of the ASX.

Mercantile OFM means Mercantile OFM Pty Ltd ACN 120 221 623.

MHM or Company means MHM Metals Limited ACN 124 212 175.

MVT means Mercantile Investment Company Limited ACN 121 415 576.

Offer or **Mercantile OFM's Offer** means the offer dated 13 February 2017 made by Mercantile OFM to acquire all of the Shares on the terms set out in Appendix A to the Bidder's Statement.

Offer Period means the period commencing on 13 February 2017 and ending on 13 March 2017 (unless extended or withdrawn) during which the Offer will remain open for acceptance.

Offer Price means the offer of \$0.04 in cash for each Share.

Original Bidder's Statement means the bidder's statement of Mercantile OFM dated 10 January 2017 which was served on MHM on 10 January 2017.

Prescribed Occurrences means the events referred to in clause 7.1 of Appendix A of the Bidder's Statement.

Relevant Interest has the meaning given to that term in the Corporations Act.

Review means the proposed review, by Mercantile OFM, of MHM's strategy, operations, activities, assets and employees in light of the information that will become available to it upon completion of the Offer.

Second Supplementary Bidder's Statement means the supplementary bidder's statement of Mercantile OFM dated 30 January 2017.

Section means a section of this Target's Statement.

Share Register means the register of shareholders of MHM maintained by or on behalf of MHM in accordance with the Corporations Act.

Shareholder means a person registered as a member of MHM.

Shares means fully paid ordinary shares in MHM.

Superior Offer means a Competing Proposal which the Board of MHM determines to be more favourable to Shareholders than Mercantile OFM's Offer, taking into account all terms and conditions of the Competing Proposal or variation to the Offer by Mercantile OFM.

Target's Statement means this Target's Statement, being the statement of MHM under Part 6.5 Division 3 of the Corporations Act.

12.2 Interpretation

Various defined terms are used in this Target's Statement. Unless the contrary intention appears, the context requires otherwise, or words are defined in Section 12.1, words and phrases in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

In this Target's Statement, headings are for convenience only and do not affect interpretation and unless the context indicates a contrary intention:

- (a) the expression "person" includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture (whether incorporated or unincorporated), a partnership and a trust;
- (b) a reference to any party includes that party's executors, administrators, successors and permitted assigns, including any person taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (c) a reference to any document (including this Target's Statement) is to that document as varied, novated, ratified or replaced from time to time;
- (d) a reference to any statute or to any statutory provision includes any statutory modification or re-enactment of it or any statutory provision substituted for it, and all ordinances, by-laws, regulations, rules and statutory instruments (however described) issued under it;
- (e) words importing the singular include the plural (and vice versa), and words indicating a gender include every other gender;
- (f) references to parties, clauses, schedules, exhibits or annexures are references to parties, clauses, schedules, exhibits and annexures to or of this Target's Statement, and a reference to this Target's Statement includes any schedule, exhibit or annexure to this Target's Statement;
- (g) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (h) the word "includes" in any form is not a word of limitation;
- (i) a reference to "\$" or "dollar" is to Australian currency; and
- (j) if any day appointed or specified by this Target's Statement for the payment of any money or doing of any thing falls on a day which is not a Business Day, the day so appointed or specified shall be deemed to be the next Business Day.

ANNEXURE 1 - INDEPENDENT EXPERT'S REPORT



MHM METALS LIMITED Independent Expert's Report

27 February 2017



Financial Services Guide

27 February 2017

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by MHM Metals Limited ('MHM') to provide an independent expert's report on the off-market takeover bid by Mercantile Investment Company Limited ('Mercantile') for all the issued shares in MHM at \$0.04 per MHM share ('the Offer'). You will be provided with a copy of our report as a retail client because you are a shareholder of MHM.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$16,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report. We note that we have also been appointed by EZA Corporation Ltd to prepare an IER on a takeover bid from Mercantile.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from MHM for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 - Glossary and copyright notice

Appendix 2 - Valuation Methodologies

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27 February 2017

The Directors
MHM Metals Limited
Level 4, 100 Albert Road
South Melbourne, VIC 3205

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 15 December 2016, MHM Metals Limited ('MHM' or 'the Company') announced that Mercantile Investment Company Limited ('Mercantile') had written to the Company declaring that it had the intention of making a takeover bid of \$0.04 per share. On 11 January 2017, the Company announced that the takeover bid was formalised with MHM receiving the Bidder's Statement which confirmed an off-market takeover offer for all the issued shares in MHM at \$0.04 per MHM share in cash ('the Offer'). The Offer is not subject to a minimum acceptance condition. Subsequently, on 14 February 2017 Mercantile submitted its replacement bidder's statement to shareholders of MHM reiterating its first and final offer of \$0.04 cash per MHM share.

On 9 February 2017, MHM announced that it had received an intention to make an off-market takeover offer from Cadmon Ventures Pty Ltd ('Cadmon') for all MHM shares at \$0.0435 per share. On 23 February 2017, Cadmon formalised this offer by lodging its Bidder's Statement.

Further details of the Offer are set out in section 4.

2. Summary and Opinion

2.1 Purpose of the report

The directors of MHM have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether or not the Offer is fair and reasonable to the non associated shareholders of MHM ('Shareholders').

Our Report is prepared pursuant to section 640 of the Corporations Act 2001 Cth ('Corporations Act' or 'the Act') and is to be included in the Target's Statement for MHM in order to assist the Shareholders in their decision whether to accept the Offer.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Offer as outlined in the body of this report. We have considered:

- how the value of an MHM share prior to the Offer on a control basis compares to the value of the Offer consideration;
- the likelihood of a superior alternative offer being available to MHM;
- other factors which we consider to be relevant to Shareholders in their assessment of the Offer; and
- the position of Shareholders should the Offer not be accepted.

2.3 Opinion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is neither fair nor reasonable to Shareholders.

In our opinion, the Offer is not fair because the value of an MHM share prior to the Offer on a control basis is greater than the value of the Offer consideration. We do not consider the Offer to be reasonable because the disadvantages of accepting the Offer outweigh the advantages. Additionally, subsequent to the Offer, the Company has received an off market takeover from Cadmon at a price of \$0.0435 per MHM share.

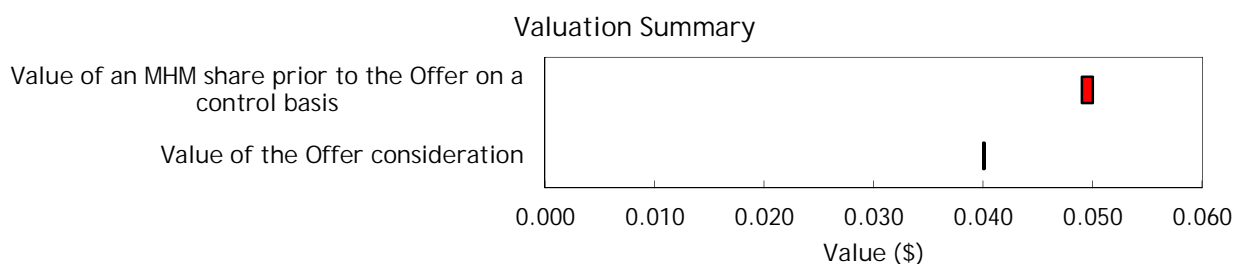
2.4 Fairness

In section 11 we determined that the Offer consideration compares to the value of an MHM share, as detailed below:

	Ref	Low \$	High \$
Value of an MHM share prior to the Offer on a control basis	9.3	0.049	0.050
Value of the Offer consideration	10	0.040	0.040

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

We note from the above analysis that the value of an MHM share prior to the Offer on a control basis is greater than the value of the Offer consideration per MHM share. Therefore, in the absence of any other relevant information, we consider that the Offer is not fair for Shareholders.

2.5 Reasonableness

We have considered the analysis in section 12 of this report, in terms of both

- advantages and disadvantages of the Offer; and
- other considerations, including the position of Shareholders if the Offer is not accepted and the consequences of not accepting the Offer.

In our opinion, the position of Shareholders if the Offer is accepted is less advantageous than the position if the Offer is not accepted. Accordingly, in the absence of any other relevant information we believe that the Offer is not reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
12.1.1	The Offer provides Shareholders with an opportunity to realise their investment with certainty	12.2.1	The Offer is not fair
12.1.2	The Offer is at a premium to the Company's last quoted price	12.2.2	The Offer is not fair on a minority interest basis
12.1.3	The Offer is not subject to a minimum acceptance condition	12.2.3	Shareholders will be unable to participate in the potential upside of prospective operations
		12.2.4	Shareholders will be unable to benefit from the experience of the new Directors
		12.2.5	Shareholders may face potential tax implications

Other key matters we have considered include:

Section	Description
12.3	<p>Alternative Proposal</p> <ul style="list-style-type: none">On 9 February 2017, MHM announced that it had received an intention to make an off-market takeover offer of \$0.0435 per share for all MHM shares from Cadmon. This was formalised on 23 February 2017, when Cadmon lodged its Bidder's StatementThe proposed offer by Cadmon is at a (rounded) 9% premium to the Offer.
12.4	<p>Consequences of not accepting the Offer</p> <ul style="list-style-type: none">Shareholders who reject the Offer could become minority shareholders in a Company in which Mercantile would have a controlling interestMHM has until July 2019 to re-comply with Chapter 12 of the ASX Listing Rules or face automatic removal from the official list of the Australian Securities Exchange ('ASX')

3. Scope of the Report

3.1 Purpose of the Report

Mercantile has prepared a Bidder's Statement in accordance with section 636 of the Act. Under section 633 Item 10 of the Act, MHM is required to prepare a Target's Statement in response to the Bidder's Statement.

Section 640 of the Act requires the Target's Statement to include an independent expert's report to shareholders if:

- The bidder's voting power in the target is 30% or more; or
- The bidder and the target have a common director or directors.

There is no requirement under ASX Listing Rules or the Act for MHM to engage an independent expert in relation to the Offer. However, notwithstanding the above, MHM has engaged BDO to prepare this independent expert's report, which is to be included in the Target's Statement for MHM to assist the Shareholders in their decision whether to accept the Offer.

3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Offer is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Offer is a control transaction as defined by RG 111 and we have therefore assessed the Offer as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that an Offer is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- a comparison between the value of an MHM share prior to the Offer on a control basis and the value of the Offer consideration per MHM share (fairness - see section 11 'Is the Offer Fair?'); and
- an investigation into other significant factors to which Shareholders might give consideration, prior to accepting the offer, after reference to the value derived above (reasonableness - see section 12 'Is the Offer Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Offer

4.1 The Offer

On 15 December 2016, Mercantile announced an intention to make an unsolicited, off-market takeover offer for all the issued shares in MHM at \$0.04 per MHM share, payable in cash. The Offer is not subject to a minimum acceptance condition.

There is no requirement under ASX Listing Rules or the Act for MHM to engage an independent expert in relation to the Offer. However, MHM has engaged BDO to prepare this independent expert's report, which is to be included in the Target's Statement for MHM to assist the Shareholders in their decision whether to accept the Offer.

For those Shareholders that accept the Offer, the Offer consideration will be paid one month after the Shareholder validly accepts the Offer.

Those Shareholders that do not accept the Offer will remain shareholders of MHM.

4.2 Cadmon Offer

On 9 February 2017, MHM announced it had received an intention to make an off-market takeover offer for all issued shares in MHM at \$0.0435 per share, payable in cash from Cadmon.

The proposed offer by Cadmon is subject to the same terms and conditions as the Offer.

On 23 February 2017, Cadmon formalised its offer by lodging its Bidder's Statement.

Given that the Cadmon offer is at a higher price and that all the terms and conditions are the same as the Offer we consider this to be a superior offer.

5. Profile of MHM

5.1 Background

MHM was incorporated in March 2007 and listed on the ASX in December 2007. The Company currently has no active operations but is focussed on pursuing new opportunities to advance shareholder wealth. Prior to December 2014, the Company was primarily focussed on aluminium salt slag processing and the production of Non Metallic Product ('NMP') through its wholly-owned subsidiary Alreco Pty Ltd ('Alreco') at the Moolap plant located in Geelong, Victoria ('Moolap').

The current directors and senior management of MHM are:

- Mr Faldi Ismail, Chairman;
- Mr Bryn Hardcastle, Director;
- Mr Nicholas Young, Director; and
- Mr Justin Mouchacca, Company Secretary.

5.2 Recent corporate events

On 18 February 2014, Alcoa Inc. ('Alcoa') announced that it would permanently close its two rolling mills at Port Henry, Victoria and Yennora, New South Wales by the end of 2014. At the time, a significant portion of the salt slag processed at Moolap was sourced from Alcoa's Yennora facility. As a result, MHM stated in an announcement dated 20 February 2014 that it would begin conducting a strategic review of all options available for the Company going forward.

In its annual report for the year ended 30 June 2014, the Company announced that it had been unable to secure further aluminium salt slag feedstock for processing at Moolap.

On 30 September 2014, the Company released a strategic review. The review highlighted that the ability of the Company to continue to treat salt slag in the domestic-waste sector solely depended on the outcome of Alcoa's decision of whether the 160,000 tonnes of salt slag material at the Alcoa landfill would be required to be processed. Furthermore, the strategic review also indicated the Company's intention to sell its existing manufacturing facility located in Russellville, Kentucky, following the conclusion that expanding to the United States of America ('USA') was not a viable venture for the Company.

On 22 September 2014 MHM announced that the Federal Court of Australia had ordered Mr Frank Rogers (former managing director) and Rogers Southern Pty Ltd (a company controlled by Mr Rogers) to pay compensation of \$548,581 to the Company for breach of director duties and misappropriation of funds.

On 29 October 2014, MHM released a company update detailing that the Alreco plant at Moolap would officially cease operations in the first quarter of calendar year ('CY') 2015 due to confirmation from Alcoa that the site landfill would remain in-situ and no further processing would be required.

On 25 May 2015, the Company announced that the Full Court of the Federal Court of Australia heard the appeal by Mr Frank Rogers against the September 2014 judgement and ruled in favour of MHM.

On 24 June 2015, the Company announced that since its last update on 25 May 2015, it had conducted initial due diligence on a total of four projects. These projects comprised base metals and coal opportunities, located in Peru and Colombia however these did not progress past the initial due diligence stage.

On 19 November 2015, the Company concluded that it was in the best interests of the Company to sell its property located in Russellville, Kentucky and as such, had entered into a Letter of Intent to Purchase with a US based group. The agreed consideration was United States dollars ('US\$') 550,000 and the buyer was granted a 60 day exclusivity in order to complete due diligence on the property. The sale of the property settled in April 2016.

On 15 December 2015, the Company announced that it had entered into a binding, conditional agreement to sell the Moolap property on a walk in walk out basis to a party interested in converting the plant and equipment for use in other business ventures. The agreed consideration for the property was \$500,000, roughly equivalent to the carrying value less the provision for environmental rehabilitation relating to the property. The sale of the property followed the decision by Alcoa not to further process its stockpiles of salt slag. On 1 July 2016, the Company announced that the conditions precedent had not been met and the agreement was terminated.

On 11 January 2016, the Company announced that it had entered into a Binding Heads of Agreement with Stone Resources Australia Limited ('SHK') to develop the Brightstar Gold Project located in the Laverton region of Western Australia. The agreement set out the terms and conditions of a joint venture upon which MHM could earn up to an 80% interest in the Brightstar Gold Project. The transaction was conditional upon the Company completing due diligence to its satisfaction and receiving all relevant approvals.

On 23 March 2016, MHM announced that it had terminated the Binding Heads of Agreement between itself and SHK due to what the Company considered to be various breaches by SHK of the covenants, warrants and representations made in the Binding Heads of Agreement between the parties.

On 12 July 2016, the Company announced that it had acquired voting power of approximately 10% of the issued share capital of Kin Mining NL ('Kin Mining') to assist in advancing Kin Mining's Leonora Gold Project. Subsequently, on 14 July 2016 MHM released an announcement by Kin Mining whereby Kin Mining rejected an unsolicited indicative non-binding proposal made on 12 July 2016 by the Company. The indicative non-binding proposal contemplated a merger between MHM and Kin Mining. On 20 July 2016, the Company announced that it ceased to be a substantial holder of Kin Mining.

On 15 November 2016, MHM announced that it had entered into a merger term sheet with Alliance Mining Commodities Limited ('Alliance'), a privately owned Bermudan company that owned a 90% interest in the Koumbia bauxite project in Republic of Guinea. However, on 12 December 2016, the Company announced that it had reached a mutual agreement with Alliance to terminate the merger term sheet. The reasons for the termination were not disclosed and no funds were advanced under the terms of the pre-completion funding agreement.

On 21 December 2016, the Company announced that it had been in discussions with Otsana Capital, a Western Australian based corporate advisory firm who specialise in restructuring and recapitalising ASX listed entities, as well as facilitating reverse takeovers and IPO's. Following these discussions, the Company appointed three new directors to the board, being Mr Faldi Ismail, Mr Bryn Hardcastle and Mr Nicholas Young, who replaced Mr Joseph van den Elsen, Mr Francis de Souza and Mr Paul Harley.

On 23 December 2016, the Company announced that it had settled the sale of the property, plant and equipment at Buckley Grove, Moolap, for consideration of \$1. The sale was effectuated on a 'walk-in, walk-out' basis, without representations and warranties on the part of the seller and with the buyer assuming the responsibility for all potential liabilities connected to the property, including legacy stockpiles.

On 15 December 2016, MHM announced that Mercantile had written to the Company declaring that it had the intention of making a takeover bid of \$0.04 per share. On 11 January 2017, the takeover bid was formalised with MHM receiving the Bidder's Statement which confirmed the Offer. Subsequently, on 17 January 2017, 31 January 2017 and 14 February 2017, Mercantile released Replacement Bidder's Statements reiterating its first and final offer of \$0.04 per MHM share.

On 12 January 2017, the Company announced that it had settled the sale of the Executive 73 Vessel for net consideration of US\$380,000.

On 9 February 2017, MHM announced that it had received an intention to make an off-market takeover offer from Cadmon at \$0.0435 per MHM share for MHM shares. On 23 February 2017, Cadmon formalised its offer by lodging its Bidder's Statement.

On 16 February 2017, the Chairman of MHM released a letter to MHM Shareholders addressing the Offer and Replacement Bidder Statement submitted by Mercantile. The Chairman advised Shareholders that the recently appointed Board of MHM recommends Shareholders reject the Offer and take no action in relation to the Offer or any document received from Mercantile.

5.3 Historical Statement of Financial Position

Statement of Financial Position	Audited as at 30-Jun-16 \$	Audited as at 30-Jun-15 \$
CURRENT ASSETS		
Cash and cash equivalents	7,123,253	1,357,966
Trade and other receivables	40,270	1,860,264
Other	41,728	40,219
Assets classified as held for sale	883,137	423,177
TOTAL CURRENT ASSETS	8,088,388	3,681,626
NON-CURRENT ASSETS		
Available-for-sale financial assets	445,728	-
Property, plant and equipment	624,058	1,734,195
TOTAL NON-CURRENT ASSETS	1,069,786	1,734,195
TOTAL ASSETS	9,158,174	5,415,821
CURRENT LIABILITIES		
Trade and other payables	178,127	267,645
Provisions	31,142	1,690,173
Liabilities associated with assets classified as held for sale	1,008,491	-
TOTAL CURRENT LIABILITIES	1,217,760	1,957,818
TOTAL LIABILITIES	1,217,760	1,957,818
NET ASSETS	7,940,414	3,458,003
EQUITY		
Contributed equity	29,912,298	29,846,015
Reserves	2,565,631	2,328,074
Accumulated losses	(24,537,515)	(28,716,086)
TOTAL EQUITY	7,940,414	3,458,003

Source: MHM's audited financial statements as at 30 June 2016

We note the following in relation to MHM's historical statement of financial position:

- Cash and cash equivalents increased from \$1.40 million as at 30 June 2015 to \$7.12 million as at 30 June 2016. This was primarily due to the receipt of a research and development ('R&D') tax offset received by the Company amounting to \$7.40 million. This was partially offset by payments to suppliers and employees of \$2.41 million and payments for share buy-backs of \$0.16 million.
- Trade and other receivables as at 30 June 2016 comprised goods and services tax ('GST') receivables and interest receivables. The trade and other receivables balance at 30 June 2015 of \$1.86 million mainly comprised of an R&D tax incentive refund of \$1.74 million and other receivables.
- During the year ended 30 June 2015, the Company decided to sell the property, plant and equipment owned in its manufacturing facility located in Russellville, Kentucky. As a result, the property, plant and equipment owned in the manufacturing facility was classified as assets held for sale, written down to the expected recoverable amount.

- Available-for-sale financial assets of \$0.45 million as at 30 June 2016 represented the equity interest in Kin Mining following the Company's acquisition of 10% of the issued capital of Kin Mining in July 2016.
- Liabilities associated with assets classified as held for sale of \$1.01 million at 30 June 2016 related to a remediation provision on its Hays Road Lease located in Moolap. This followed an error in prior years whereby a make good provision forecast of \$0.84 million relating to the Company's lease agreement with Alcoa over an industrial property at Moolap was included as an asset on the Company's balance sheet.

5.4 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-16 \$	Audited for the year ended 30-Jun-15 \$
Revenue		
Income	365,498	32,834
Other income	5,698,414	493,520
Expenses		
Administration expenses	(117,565)	(117,881)
Corporate expenses	(631,354)	(284,102)
Employee benefits expenses	(442,193)	(679,271)
Depreciation and amortisation expense	(8,287)	(11,001)
Impairment reversal/(expense)	308,939	(839,098)
Insurance expense	(66,417)	(75,036)
Legal fees	(128,539)	(332,047)
Foreign exchange gain/(loss)	-	185,212
Other expenses	(73,598)	(48,376)
Profit/(loss) before income tax from continuing operations	4,904,898	(1,675,246)
Income tax benefit/(expense)	-	2,722,815
Profit/(loss) after income tax benefit from continuing operations	4,904,898	1,047,569
Loss after income tax expense from discontinued operations	(726,327)	(4,993,169)
Profit/(loss) after income tax benefit	4,178,571	(3,945,600)
Foreign currency translation	40,821	-
Gain on revaluation of assets	108,565	-
Gain on revaluation of available-for-sale assets, net of tax	113,171	-
Total comprehensive profit/(loss) for the year	4,441,128	(3,945,600)

Source: MHM's audited financial statements for the year ended 30 June 2016

We note the following in relation to MHM's historical statement of profit or loss and other comprehensive income:

- Other income for the year ended 30 June 2016 of \$5.70 million related to an R&D tax incentive refund. This amount was recognised following review by an independent expert and a submission to the Australian Taxation Office.
- The Impairment expense of \$0.84 million for the year ended 30 June 2015 related to the write down of the property, plant and equipment used on its property in Russellville, Kentucky, and was

based on the Company's estimate on the potential sale price which could be achieved at the time of finalising the 2015 Annual Report. The reversal of impairment amounting to \$0.31 million for the year ended 30 June 2016 related to a reversal of the prior period impairment charge.

5.5 Capital Structure

The share structure of MHM as at 8 February 2017 is outlined below:

	Number
Total ordinary shares on issue	136,228,616
Top 20 shareholders	59,975,706
Top 20 shareholders - % of shares on issue	42.56%

Source: Share registry information

The range of shares held in MHM as at 8 February 2017 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	88	20,431	0.01%
1,001 - 5,000	108	346,596	0.25%
5,001 - 10,000	88	743,525	0.55%
10,001 - 100,000	600	22,343,324	16.40%
100,001 - and over	212	112,774,740	82.78%
TOTAL	1,096	136,228,616	100.00%

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 8 February 2017 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Invia Cust PL	14,592,325	10.71%
Kopetjka Family	9,651,011	7.08%
Attollo INV PL	5,840,575	4.29%
Karafotias Anastasios	4,985,000	3.66%
Subtotal	35,068,911	25.74%
Others	101,159,705	74.26%
Total ordinary shares on Issue	136,228,616	100.00%

Source: Share registry information

As at the date of our Report, MHM has the following options on issue:

Options	Number
Options exercisable at \$1.00 on or before 18 July 2017	500,000
Options exercisable at \$0.45 on or before 13 November 2017	100,000

Source: Information provided by management

6. Profile of Mercantile

6.1 Background

Mercantile is an investment company focussed on investing in listed securities and listed on the ASX itself in April 2007. Mercantile, formerly known as Equities Fund Limited, has its head office located in Sydney, New South Wales.

The current directors and senior management of Mercantile are:

- Sir Ron Brierley, Chairman & Non-Executive Director;
- Mr Gabriel Radzynski, Executive Director;
- Mr James Chirnside, Non-Executive Director;
- Mr Ronald Langley, Non-Executive Director;
- Mr Daniel Weiss, Non-Executive Director;
- Dr Gary Weiss, Non-Executive Director;
- Mr Mark Licciardo, Joint Company Secretary; and
- Mr Chris Lobb, Joint Company Secretary.

6.2 Recent corporate events

On 4 June 2015, Mercantile announced that through its wholly owned subsidiary, Mercantile OFM Pty Ltd ('Mercantile OFM') it had made an off-market takeover offer for all of the ordinary shares in ASX-listed Ask Funding Limited ('AKF') that Mercantile did not own. The offer consideration totalling \$2.66 million was paid on 4 September 2015.

On 27 August 2015, Mercantile received a short term loan totalling \$3.00 million from Sir Ron Brierley to fund the purchase of various investments. Additional amounts up to \$7.00 million were also advanced by Sir Ron Brierley to Mercantile between December 2015 and March 2016. The loan and interest payable was re-paid in full before 30 June 2016.

On 22 December 2015, Mercantile announced that it had undertaken a placement to raise \$1.4 million New Zealand Dollars through the issue of 11,235,329 new fully paid ordinary shares from wholesale investors in New Zealand. This capital raising followed Mercantile's listing on the New Zealand Exchange Main Board on 6 July 2015.

On 11 August 2016, Mercantile announced two takeover offers for Richfield International Limited and Wellington Merchants Limited through its wholly owned subsidiaries Mercantile OFM and Mercantile NZ Limited, respectively. Both offers were funded using Mercantile's cash reserves and drawing down on the debt facility Mercantile had with Sir Ron Brierley.

On 15 December 2016, Mercantile announced that it had written to the board of MHM indicating its intention to make an off-market takeover bid for the shares in MHM. MHM subsequently released a response to the proposed takeover on 16 December 2016, outlining that it had received the unsolicited proposed off market takeover offer and had reviewed and responded to Mercantile's correspondence.

On 15 December 2016, Mercantile also announced that it had written to the board of EZA Corporation Limited ('EZA') indicating its intention to make an off-market takeover bid for the shares in EZA.

6.3 Historical Statement of Financial Position

Statement of Financial Position	Audited as at 30-Jun-16 \$	Audited as at 30-Jun-15 \$	Audited as at 30-Jun-14 \$
CURRENT ASSETS			
Cash and cash equivalents	7,933,953	6,117,624	1,129,258
Trade and other receivables	134,751	84,098	34,924
Net loans and advances	3,599,171	-	-
Financial assets at fair value through profit or loss	15,738,106	3,278,374	4,866,296
Other current assets	118,505	43,582	193,179
TOTAL CURRENT ASSETS	27,524,486	9,523,678	6,223,657
NON-CURRENT ASSETS			
Financial assets - available for sale	40,664,016	32,420,440	34,449,927
Trade and other receivables	624,443	713,558	871,534
Property, plant and equipment	1,039	3,065	5,830
Deferred tax assets	229,936	243,861	36,218
TOTAL NON-CURRENT ASSETS	41,519,434	33,380,924	35,363,509
TOTAL ASSETS	69,043,920	42,904,602	41,587,166
CURRENT LIABILITIES			
Trade and other payables	1,676,527	1,764,491	138,318
Current tax liability	466,836	473,096	-
Borrowings	-	-	2,912,241
TOTAL CURRENT LIABILITIES	2,143,363	2,237,587	3,050,559
NON-CURRENT LIABILITIES			
Unsecured notes	15,107,926	-	-
Deferred tax liabilities	4,326,616	2,455,990	4,830,215
TOTAL NON-CURRENT LIABILITIES	19,434,542	2,455,990	4,830,215
TOTAL LIABILITIES	21,577,905	4,693,577	7,880,774
NET ASSETS	47,466,015	38,211,025	33,706,392
EQUITY			
Contributed equity	28,717,120	27,404,109	24,773,530
Reserves	22,711,693	18,486,985	16,561,023
Retained earnings	(5,237,356)	(7,680,069)	(7,628,161)
Total equity attributable to owners of the parent	46,191,457	38,211,025	33,706,392
Non-controlling interest	1,274,558	-	-
TOTAL EQUITY	47,466,015	38,211,025	33,706,392

Source: Mercantile's audited financial statements as at 30 June 2014, 30 June 2015 and 30 June 2016

We note the following in relation to Mercantile's historical statement of financial position:

- Net loans and advances of \$3.60 million as at 30 June 2016 were acquired by Mercantile as part of the acquisition of AKF on 4 September 2015. Net loans and advances comprised family law, disbursement funding, personal injury, other and provision for impairment.
- Financial assets - available for sale represented those equity instruments that Mercantile did not hold for trading purposes. As at 30 June 2016, financial assets - available for sale of \$40.66 million

comprised \$36.51 million related to listed domestic and international investments, \$0.23 million related to unlisted domestic investments and \$3.92 million related to unlisted international investments.

- Non-current trade and other receivables as at 30 June 2016 of \$0.62 million related to a loan to Impact Holdings (UK) Plc. Interest on the loan is payable at the end of each quarter at a rate of 4.5% per annum. As at 30 June 2016, the balance of the advance to Impact Holdings (UK) Plc was 350,000 Great British Pounds.
- Unsecured notes of \$15.11 million as at 30 June 2016 comprised 156,457 unsecured notes issued at a face value of \$100 each. Terms of the notes are regulated under a trust deed between Mercantile and Australian Executor Trustee Limited.
- The increase in net assets from \$38.21 million as at 30 June 2015 to \$47.47 million as at 30 June 2016 was primarily due to the increase in the market value of Mercantile's investments in listed securities as well as interest, dividend and other income received during the year.

6.4 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-16 \$	Audited for the year ended 30-Jun-15 \$	Audited for the year ended 30-Jun-14 \$
Continuing operations			
Revenue	4,478,558	670,884	398,143
Interest income	1,592,543	391,097	-
Other income	367,681	89,961	526,505
Expenses			
Listed company expenses	(1,240,786)	(694,031)	(717,444)
Remuneration expenses	(318,437)	(182,491)	(67,324)
Impairment of loans and advances	(1,653,415)	-	-
Loan recovery costs	(295,925)	-	-
Share based payments	(164,000)	-	-
Finance costs	(100,426)	(46,982)	(84,589)
Insurance	(167,348)	(130,450)	-
Other	(191,126)	(103,053)	(28,502)
Profit/(loss) before income tax	2,307,319	(5,065)	26,789
Income tax (expense)/benefit	(657,726)	490,776	(135,351)
Profit/(loss) after income tax	1,649,593	485,711	(108,562)
Other comprehensive income			
Movements in fair value of long term equity investments	4,598,327	1,388,343	7,635,718
Total comprehensive income for the year	6,247,920	1,874,054	7,527,156

Source: Mercantile's audited financial statements for the years ended 30 June 2014, 30 June 2015 and 30 June 2016

We note the following in relation to Mercantile's historical statement of profit or loss and other comprehensive income:

- Revenue comprised dividends, return of capital and distribution income, adjusted for realised losses on trading portfolio and unrealised gains or losses on trading portfolio, losses or gains on acquisition of a controlled entity, interest income and other income.
- The increase in revenue from \$0.67 million for the year ended 30 June 2015 to \$4.48 million for the year ended 30 June 2016 was wholly attributable to the performance of Mercantile's trading portfolio during the period.
- Impairment of loans and advances of \$1.65 million for the year ended 30 June 2016 represented impairments related to the acquisition of AKF in September 2015. As part of the acquisition of AKF, the net loans and advances of AKF were acquired by the Company. From the date of acquisition to 30 June 2016, AKF management impaired net loans and advances due to doubt over the collectability of principal and interest.

6.5 Capital Structure

The share structure of Mercantile as at 31 August 2016 is outlined below:

	Number
Total ordinary shares on issue	280,000,000
Top 20 shareholders	222,551,507
Top 20 shareholders - % of shares on issue	79.48%

Source: Share Registry information

The range of shares held in Mercantile as at 31 August 2016 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	663	235,664	0.08%
1,001 - 5,000	1,326	3,840,358	1.37%
5,001 - 10,000	484	3,667,198	1.31%
10,001 - 100,000	646	20,021,573	7.15%
100,001 - and over	111	252,235,207	90.08%
TOTAL	3,230	280,000,000	100.00%

Source: Share Registry information

The ordinary shares held by the most significant shareholders as at 31 August 2016 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Sir Ron Brierley	122,411,120	43.72%
G W Holdings Pty Ltd	25,750,522	9.20%
Dr Gary Weiss	15,455,001	5.52%
Subtotal	163,616,643	58.43%
Others	116,383,357	41.57%
Total ordinary shares on Issue	280,000,000	100.00%

Source: Share Registry information

7. Economic analysis

Australia

Commodity prices

Commodity prices have increased in recent months, following a steep decline over the past few years. The increase in commodity prices is partly attributable to factors such as increased Chinese demand for bulk commodities. Chinese authorities have also restricted domestic production to reduce overcapacity, which has further contributed to the appreciation of prices.

The increase in commodity prices has seen a consequent increase in Australia's terms of trade. The increase bucks a declining trend in Australia's terms of trade, which have steadily declined over the past four years.

Domestic growth

In Australia, the available information suggests that the economy is growing moderately. The Australian economy has experienced a large decline in mining investment, however this is being offset by growth in other areas such as residential construction, government expenditure and exports.

It is expected that inflation will remain relatively low over the coming years, suggesting there is still downwards pressure on inflation in Australia.

Inflation for the 2016 calendar year was 1.5%, however it is expected to increase in 2017 as the effects of the factors that have been weighing on domestic cost pressures dissipate, including the earlier decline in the terms of trade and falling employment in mining related industries.

Credit growth

Credit growth has declined over the past year however loan approvals data suggests that lending to investors has risen over the past few months. This is consistent with the increase in investor housing loan approvals. Housing market conditions in Perth remain subdued, with apartment and detached dwelling prices exhibiting a downwards trend.

Financial conditions remain accommodative globally, with funding costs for creditworthy borrowers remarkably low.

Impact of currency movements

An overall depreciating Australian dollar since 2013 has assisted the ongoing adjustment of the economy towards non-resource sectors following the end of the mining boom. However, over the last few months, the Australian dollar has gradually appreciated and Australia has experienced a rise in its terms of trade.

Source: www.rba.gov.au Statement by Phillip Lowe, Governor: Monetary Policy Decision 6 December 2016 and 7 February 2017

8. Valuation approach adopted

In assessing whether the Offer is fair for Shareholders, we have considered a comparison between the value of an MHM share on a control basis prior to the Offer and the value of the consideration offered by Mercantile, being \$0.040 cash per MHM share.

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

8.1 Valuation of an MHM share prior to the Offer

In our assessment of the value of an MHM share prior to the Offer we have chosen to employ the following methodologies:

- NAV as our primary approach;
- QMP as our secondary approach; and
- any recent genuine offers received by the Company.

We have chosen these methodologies for the following reasons:

- As MHM does not currently have any operations, the core value of the Company is its cash and cash equivalents, which constitutes the majority of its net assets;
- The QMP basis is a relevant methodology to consider as MHM's shares are listed on the ASX. Although trading in MHM shares has ceased since 14 July 2016, the nature of the Company and its assets is consistent with that prior to its suspension. This means that there is a regulated and observable market where MHM's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the Company's shares should be liquid and the market should be fully informed as to its activities. We have considered these factors in section 9.2 of our Report;
- MHM does not generate regular trading income. Therefore, there are no historical profits that could be used to represent future earnings. This means that the FME valuation approach is not appropriate;
- MHM has no foreseeable future cash inflows and therefore the application of the DCF valuation approach is not appropriate; and
- As per RG 111.69, it is generally appropriate for an expert to consider any recent genuine offers received by the target for the entire business or any business units or assets as a basis for valuation of those business units or assets. Given that on 9 February 2017, the Company announced that Cadmon

had expressed its intention to make an off-market takeover offer, we consider this offer to be a viable valuation methodology to consider when valuing MHM. Cadmon formalised this offer by lodging its Bidder's Statement on 23 February 2017.

9. Valuation of MHM prior to the Offer

9.1 Net Asset Valuation of MHM

The value of MHM's assets on a going concern basis is reflected in our valuation below:

NAV	Note	Unaudited as at 31-Dec-16 \$	Low \$	High \$
CURRENT ASSETS				
Cash and cash equivalents	a	5,361,679	5,811,440	5,811,440
Trade and other receivables		34,446	34,446	34,446
Other		45,577	45,577	45,577
TOTAL CURRENT ASSETS		5,441,702	5,891,463	5,891,463
NON-CURRENT ASSETS				
Available-for-sale financial assets	b	950,797	1,027,888	1,151,234
Property, plant and equipment	c	506,566	-	-
TOTAL NON-CURRENT ASSETS		1,457,363	1,027,888	1,151,234
TOTAL ASSETS		6,899,065	6,919,351	7,042,697
CURRENT LIABILITIES				
Trade and other payables		202,562	202,562	202,562
Provisions		36,531	36,531	36,531
TOTAL CURRENT LIABILITIES		239,093	239,093	239,093
TOTAL LIABILITIES		239,093	239,093	239,093
NET ASSETS		6,659,972	6,680,258	6,803,604
Number of shares on issue	d		136,228,616	136,228,616
Value per share (\$)			0.049	0.050

Source: Unaudited management accounts for the half year ended 31 December 2016 and BDO analysis

We have not undertaken a review of the Company's unaudited management accounts in accordance with Australian Auditing and Assurance Standard 2405 'Review of Historical Financial Information' and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

The table above shows that we consider the net asset value of an MHM share to be between \$0.049 and \$0.050.

We note the following in relation to the above valuation.

Note a) Cash and cash equivalents

We have been provided with bank statements which support the cash and cash equivalents balance at 31 December 2016. Management have also advised that subsequent to 31 December 2016, the Company received an amount of \$449,761 for the disposal of its survey vessel as set out below.

	\$
Cash and cash equivalents at 31 December 2016	5,361,679
Cash received on sale of survey vessel	449,761
Adjusted cash and cash equivalents	5,811,440

Note b) Available for sale financial assets

Available for sale financial assets relate to the Company's holding in Kin Mining. We have been provided with a portfolio statement supporting this balance at 31 December 2016, therefore we have reasonable grounds for inclusion of this in our net asset value. We have adjusted the book value of the investment by assessing its market value at 24 February 2017. Our valuation of the shares in Kin Mining is set out below.

We have based our assessment of the value of the Company's holding on the weighted average market prices for 10, 30, 60 and 90 day periods to 24 February 2017.

Share Price per unit	24-Feb-17	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.200				
Volume weighted average price (VWAP)		\$0.207	\$0.212	\$0.208	\$0.224

We have also considered the historical high and low prices in assessing the market value of the Company's holding in Kin Mining as set out below.

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.200	\$0.215	308,575	0.27%
10 Days	\$0.195	\$0.225	1,814,133	1.59%
30 Days	\$0.175	\$0.250	4,341,027	3.80%
60 Days	\$0.170	\$0.250	7,363,078	6.44%
90 Days	\$0.170	\$0.300	11,259,615	9.85%
180 Days	\$0.159	\$0.322	37,191,260	32.52%
1 Year	\$0.074	\$0.322	57,693,945	50.45%

Based on the above analysis, we consider the value of a share in Kin Mining to be \$0.200 to \$0.224, with the total value of the Company's shares set out in the table below.

	Low value \$	High value \$
Assessed value per share	0.200	0.224
Number of shares held	5,139,438	5,139,438
Value of investment in Kin Mining	1,027,888	1,151,234

Note c) Property, plant and equipment

The Company sold its survey vessel and received an amount of \$449,761 which has been reflected in our adjustment to cash and cash equivalents under note a. We have therefore adjusted the balance of property, plant and equipment to remove the book value of the survey vessel.

Management advise that the residual property, plant and equipment of \$7,393 relates to office equipment which will be written off. Although this balance is not material, as such we do not consider this to be realisable and have therefore adjusted the property, plant and equipment balance to nil.

Note d) Number of shares on issue

As outlined in section 5, the MHM options currently on issue are out-of-the money, therefore we have assumed that they will not be exercised and have used the number of shares at the date of our report in our valuation.

9.2 Quoted Market Prices for MHM Securities

To provide a comparison to the valuation of MHM in section 9.1, we have also assessed the quoted market price for an MHM share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

Minority interest value

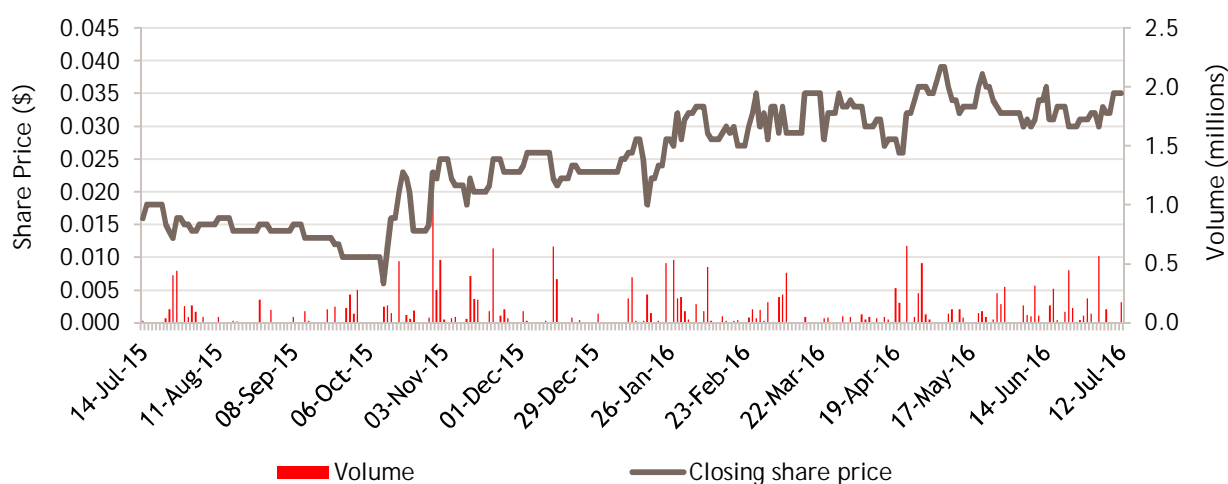
Our analysis of the quoted market price of an MHM share is based on the pricing prior to the Company's suspension from official quotation on the ASX. As MHM is still suspended due to failure to comply with Chapter 12 of the ASX Listing Rules, we are unable to analyse the value of an MHM share immediately prior to the announcement of the Offer.

Since MHM was suspended from official quotation on 14 July 2016, the Company has not undergone any material changes, has had no active operations and has not executed any corporate transactions which would materially alter the value of the Company. We also note the value of MHM lies in the cash that it holds and that the cash position at the time of suspension is similar to the Company's current cash position.

Therefore, as the Company still has no operations we consider the price at which the Company's share closed at on 14 July 2016, to be a reliable indication of what MHM shares would trade at today.

MHM was suspended from official quotation on the ASX on 14 July 2016, with a trading halt imposed on 12 July 2016. Therefore, the following chart provides a summary of the share price movement over the twelve months to 12 July 2016 which was the last trading day prior to suspension of the Company's shares.

MHM share price and trading volume history



Source: Bloomberg

The daily price of MHM shares over the twelve months from 13 July 2015 to 12 July 2016 has ranged from a low of \$0.006 on 12 October 2015 to a high of \$0.039 on 5 May 2016. The highest single day of trading was on 29 October 2015, where 1.09 million shares were traded.

During this period a number of announcements were made to the market. The key announcements including the announcements relating to the trading halt and suspension of the Company from official quotation are set out below:

Date	Announcement	Closing Share Price Following Announcement			Closing Share Price Three Days After Announcement		
		\$ (movement)			\$ (movement)		
14/07/2016	Suspension from official quotation	0.035	►	0.0%	0.035	►	0.0%
14/07/2016	KIN: Rejection of Proposal by MHM	0.035	►	0.0%	0.035	►	0.0%
12/07/2016	Trading Halt	0.035	►	0.0%	0.035	▼	0.0%
12/07/2016	Investment in KIN Mining N.L	0.035	►	0.0%	0.035	▼	0.0%
11/07/2016	SHK: UPDATE ON MHM BINDING HEADS OF AGREEMENT TERMINATION	0.035	►	0.0%	0.035	▼	0.0%
11/07/2016	Update on SHK Binding Heads of Agreement Termination	0.035	►	0.0%	0.035	▼	0.0%
01/07/2016	Update on Sale of Moolap Property	0.032	►	0.0%	0.032	►	0.0%
10/05/2016	Settlement of Legal Claim	0.034	▼	5.6%	0.033	▼	2.9%
09/05/2016	SHK: APPLICATIONS FOR FORFEITURE	0.036	▼	7.7%	0.032	▼	11.1%
18/04/2016	March 2016 Quarterly Activities & Cashflow Reports	0.028	►	0.0%	0.026	▼	7.1%
12/04/2016	Transaction Settlement - Sale of US Property	0.031	▲	3.3%	0.028	▼	9.7%
11/04/2016	Update on Termination of Brightstar JV with SHK	0.030	►	0.0%	0.027	▼	10.0%
24/03/2016	SHK: Termination of Brightstar Gold Project Agreement	0.032	▲	14.3%	0.035	▲	9.4%
23/03/2016	Termination of Brightstar Gold Project Agreement	0.028	▼	20.0%	0.032	▲	14.3%

Date	Announcement	Closing Share Price Following Announcement			Closing Share Price Three Days After Announcement		
		\$ (movement)			\$ (movement)		
21/03/2016	Trading Halt	0.035	►	0.0%	0.032	▼	8.6%
25/02/2016	Agreement of Sale - US Property	0.032	▲	6.7%	0.032	►	0.0%
24/02/2016	Update on proposed Brightstar Gold Project Joint Venture	0.030	▲	11.1%	0.030	►	0.0%
24/02/2016	SHK: UPDATE ON PROPOSED BRIGHTSTAR GOLD PROJECT JOINT VENTURE	0.030	▲	11.1%	0.030	►	0.0%
22/02/2016	Trading Halt	0.027	►	0.0%	0.032	▲	18.5%
08/01/2016	December 2015 Quarterly Activities & Cashflow Reports	0.025	►	0.0%	0.028	▲	12.0%
25/01/2016	MHM receives \$2.93m R&D Incentive Claim	0.028	▲	16.7%	0.032	▲	14.3%
11/01/2016	SHK: Joint Venture to develop The Brightstar Gold Project	0.026	▲	4.0%	0.028	▲	7.7%
11/01/2016	MHM & Stone enter into JV to develop Brightstar Gold Project	0.026	▲	4.0%	0.028	▲	7.7%
08/01/2016	Trading Halt	0.025	►	0.0%	0.028	▲	12.0%
05/12/2015	Company Update - Sale of Moolap Property	0.026	►	0.0%	0.026	►	0.0%
19/11/2015	Sale of US Property	0.021	▲	5.0%	0.025	▲	19.0%
29/10/2015	September 2015 Quarterly Activities & Cashflow Reports	0.023	▲	53.3%	0.025	▲	8.7%
09/10/2015	MHM Secures Interim Funding	0.010	►	0.0%	0.016	▲	60.0%
27/07/2015	June 2015 Quarterly Activities & Cashflow Reports	0.016	▲	23.1%	0.015	▼	6.3%

Source: Bloomberg and BDO analysis

On 27 July 2015, the Company released its quarterly activities report for the quarter ended 30 June 2015. The report detailed that production at Moolap for the quarter was 2,447 tonnes. Furthermore, the report stated that the Company had continued to clean up the last remaining salt slag on site, with closure of the facility to occur in September 2015. On the date of the announcement, MHM's share price increased by 23% from \$0.013 to \$0.016. However, over the subsequent three trading days the share price decreased to close at \$0.015.

On 9 October 2015, the Company announced that it had entered into agreements with entities associated with two of its Directors, for the provision of up to \$400,000 in unsecured loans to the Company to meet ongoing working capital requirements. On the date of the announcement, the Company's share price remained unchanged however over the three subsequent trading days increased by 60% to close at \$0.016.

On 29 October 2015, the Company released its quarterly activities report for the quarter ended 30 September 2015. The report detailed that the Company's unrestricted cash balance was approximately \$5.0 million, and subsequent to the quarter end, the Company was advised that its amended claims for R&D incentives in prior years had been processed and an amount of \$4.4 million was credited to the Company. On the date of the announcement, the Company's share price increased from \$0.015 to \$0.023, and over the three subsequent trading days continued to increase by 19% to close at \$0.025.

On 19 November 2015, the Company announced that it had entered into a Letter of Intent to Purchase with a US based group, to sell its property located in Russellville, Kentucky. The agreed consideration was US\$550,000. On the date of the announcement, the Company's share price increased by 5% from \$0.020 to \$0.021. Over the subsequent three trading days, the Company's share price continued to increase to close at \$0.025.

On 25 January 2016, the Company announced that it had received \$2.98 million of its R&D Incentive Claim from the financial year ended 30 June 2015. The announcement also stated that MHM had a revised cash position of \$8.0 million following the receipt of the claim. On the date of the announcement, MHM's share price increased from \$0.024 to \$0.028 and continued to increase over the three subsequent trading days to close at \$0.032.

On 22 February 2016, the Company was placed into a trading halt at its own request, pending the release of an announcement.

On 24 February 2016, the Company provided an update in relation to the Binding Heads of Agreement entered into with SHK to develop the Brightstar Gold Project. The update stated that MHM and SHK continued to advance the joint venture transaction by way of due diligence investigations, negotiations to execute a formal agreement relating to the joint venture and by finalising the project implementation schedule. Following the announcement, the Company's share price increased by 11.1% to close at \$0.030.

On 23 March 2016, the Company announced that it had terminated the Binding Heads of Agreement between itself and SHK. On the date of the announcement, MHM's share price decreased by 20% from \$0.035 to \$0.028 however over the three subsequent trading days, the share price recovered to close at \$0.032.

To provide further analysis of the market prices for an MHM share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 12 July 2016.

Share Price per unit	12-Jul-16	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.035				
Volume weighted average price (VWAP)		\$0.032	\$0.031	\$0.032	\$0.032

Source: Bloomberg and BDO analysis

The above weighted average prices are prior to the suspension of the Company's securities.

An analysis of the volume of trading in MHM shares for the twelve months to 12 July 2016 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.035	\$0.038	178,333	0.13%
10 Days	\$0.030	\$0.038	1,178,062	0.86%
30 Days	\$0.030	\$0.038	3,070,447	2.25%
60 Days	\$0.026	\$0.040	6,194,765	4.55%
90 Days	\$0.026	\$0.040	7,473,140	5.49%
180 Days	\$0.017	\$0.040	15,183,909	11.15%
1 Year	\$0.006	\$0.040	21,381,288	15.70%

Source: Bloomberg, BDO analysis

This table indicates that MHM's shares displayed a low level of liquidity, with 5.01% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- regular trading in a company's securities;
- approximately 1% of a company's securities are traded on a weekly basis;
- the spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- there are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of MHM, we do not consider there to be a deep market for the Company's shares as a result of only 15.7% of the Company's current issued capital being traded over a twelve month period prior to the suspension of the Company's securities from the ASX. Furthermore, the Company's shares have been suspended since July 2016, which means the market has been unable to price MHM shares for approximately six months. Consequently the QMP may not be reflective of what the market would price an MHM share at if it could readily trade MHM shares today.

Our assessment is that a range of values for MHM shares based on market pricing is between \$0.031 and \$0.035.

Control Premium

We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below:

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2016	20	634.85	43.91
2015	37	721.21	41.72
2014	42	475.59	34.56
2013	38	196.99	51.55
2012	49	358.29	46.38
2011	61	575.91	53.88
2010	64	785.58	42.12
2009	60	340.75	49.86
Mean		511.15	45.50
Median		525.75	45.14

Source: Bloomberg and BDO analysis

The mean and median figures above are calculated based on the average deal value and control premium for each respective year. To ensure our data is not skewed we have also calculated the mean and median of the entire data set comprising control transactions from 2009 onwards, as set out below:

Entire Data Set Metrics	Average Deal Value (AU\$m)	Average Control Premium (%)
Mean	511.67	46.64
Median	85.09	36.13

Source: Bloomberg and BDO analysis

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- nature and magnitude of non-operating assets;
- nature and magnitude of discretionary expenses;
- perceived quality of existing management;
- nature and magnitude of business opportunities not currently being exploited;
- ability to integrate the acquiree into the acquirer's business;
- level of pre-announcement speculation of the transaction; and
- level of liquidity in the trade of the acquiree's securities.

The tables above indicate that the long term average control premium paid by acquirers of companies listed on the ASX is approximately 46% since 2008. However, in assessing the sample of transactions that were included in the table, we noted transactions within the list that appear to be extreme outliers. These outliers include 30 transactions in which the announced control premium was in excess of 100%.

In a sample where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean. We note that the median control premium over the review period was approximately 36%.

In determining a control premium most appropriate for MHM, we have considered a number of factors which may differentiate MHM from other ASX listed companies considered in our analysis. Particularly, we consider the fact that MHM has been suspended since July 2016 and has no active operations would result in a potential acquirer not being willing to pay a premium for control in line with historical averages. We also note that the Company's securities remain suspended as at the date of this report, due to the Company being unable to demonstrate compliance with Chapter 12 of the ASX Listing Rules. This is also likely to result in the premium for control to be paid by a potential acquirer to be lower than historical averages.

Additionally, typically a significant component of a control premium relates to the ability to influence the operations of the company. As MHM does not have any current operations the ability to influence them is no longer relevant. A controlling interest in the Company will however have access to the net assets of MHM, which comprises mostly cash.

Based on the above analysis, we consider than an appropriate premium for control to be paid by Mercantile is between 10% and 20%.

Quoted market price including control premium

Applying a control premium to MHM's quoted market share price results in the following quoted market price value including a premium for control:

	Low value \$	High value \$
Quoted market price value	0.031	0.035
Control premium	10%	20%
Quoted market price valuation including a premium for control	0.034	0.042

Source: BDO analysis

Therefore, our valuation of an MHM share based on the quoted market price method and including a premium for control is between \$0.034 and \$0.042.

9.3 Cadmon offer

As per RG 111.69, it is generally appropriate for an expert to consider any recent genuine offers received by the target for the entire business, or any business units or assets as a basis for valuation of those business units or assets.

On 9 February 2017, MHM announced that it had received an intention to make an off-market takeover offer from Cadmon for all MHM shares at an offer price of \$0.0435 per MHM share in cash and with the same terms and conditions of the Offer. This offer was formalised when Cadmon lodged a Bidder's Statement on 23 February 2017.

9.4 Assessment of the value of MHM prior to the Offer

The results of our valuation of an MHM share prior to the Offer are presented in the table below:

	Ref	Low value \$	High value \$
Net assets value	9.1	0.049	0.050
Quoted market price	9.2	0.034	0.042
Offer from Cadmon	9.3	0.0435	0.0435

Source: BDO analysis

We note that our assessed NAV and the offer from Cadmon are higher than the value obtained using the QMP methodology. We consider the value of an MHM share derived under the NAV approach to be the most appropriate methodology for the following reasons:

- If the Company was to distribute its liquid assets to its Shareholders, after discharging its liabilities, each Shareholder would receive approximately \$0.049 per share. The NAV therefore represents a floor value for the Company which we consider to be a more reliable valuation methodology than the QMP for the reasons outlined below.
- Under RG 111.69 (d), the QMP methodology is considered appropriate where a liquid and active market exists for the securities. From our analysis of the QMP of an MHM share in section 9.2, we concluded that MHM's shares exhibited a low level of liquidity prior to being suspended. Due to the illiquid nature of MHM shares, the market has valued them at a discount to their intrinsic value to reflect the difficulty shareholders may experience when attempting to exit their investment and realise a capital gain.

- Furthermore, MHM's shares have been suspended since July 2016. Therefore, the market has been unable to price MHM shares since this time. Consequently the QMP may not be reflective of what the market would price an MHM share at if it could readily trade them today.
- The value of the Cadmon offer is relevant to our fairness assessment since if the Offer is not accepted, Shareholders will be able to realise \$0.0435 per share by accepting the Cadmon offer.

Based on the above analysis, we consider the value of an MHM share to be in the range of \$0.049 and \$0.050.

10. Valuation of the Offer consideration

Under the Offer, Shareholders will receive \$0.04 per share in cash for each share held in MHM.

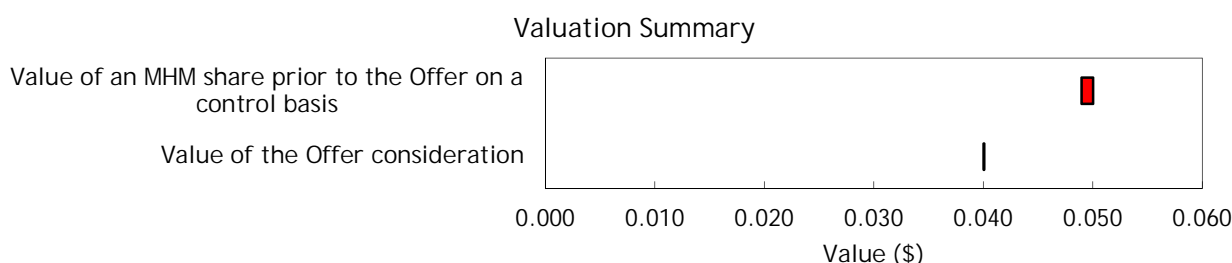
11. Is the Offer fair?

We have considered the value of the Offer consideration per share compared to the value of an MHM share prior to the Offer, on a control basis. This analysis is shown below:

	Ref	Low value \$	High value \$
Value of an MHM share prior to the Offer on a control basis	9.3	0.049	0.050
Value of the Offer consideration	10	0.040	0.040

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

We note from the above analysis that the value of an MHM share prior to the Offer on a control basis is greater than the value of the Offer consideration per MHM share. Therefore, in the absence of any other relevant information, we consider that the Offer is not fair for Shareholders.

We also note that on 23 February 2017, Cadmon lodged a Bidder's Statement for a takeover offer at \$0.0435 per MHM share, which is also above the Offer consideration. This supports our opinion that the Offer is not fair for Shareholders.

12. Is the Offer reasonable?

12.1 Advantages of Accepting the Offer

We have considered the following advantages when assessing whether the Offer is reasonable.

12.1.1. The Offer provides Shareholders with an opportunity to realise their investment with certainty

Shares in MHM have been suspended from quotation on the ASX since July 2016. Furthermore, in the twelve months prior to being suspended, the Company's shares displayed a low level of liquidity, with only 15.7% of the Company's total issued capital being traded.

The Offer consideration of cash provides Shareholders with an opportunity to realise their investment in MHM. The certainty of the cash consideration presents an advantage to shareholders in a time when they are unable to trade their MHM shares on the market and there is uncertainty surrounding the future operations of the Company.

12.1.2. The Offer is at a premium to the Company's last quoted price

As detailed in section 9.2, the closing share price of MHM prior to the Company being suspended was \$0.035. Therefore, the Offer consideration represents a 14.29% premium to the last quoted price. However, we note that the Company's last quoted price was as at 12 July 2016 and therefore this price does not reflect Company specific changes or macro-economic changes since that date and as such is less relevant than if it had been more current.

12.1.3. The Offer is not subject to a minimum acceptance condition

Under the terms of the Offer there is no minimum acceptance condition. Therefore, Shareholders are free to accept the Offer regardless of whether other Shareholders decide to accept or reject the Offer. This independence provides Shareholders with certainty of a cash return on their investment, should they choose to accept the Offer.

12.2 Disadvantages of Accepting the Offer

If the Offer is accepted, in our opinion, the potential disadvantages to Shareholders include the following:

12.2.1. The Offer is not fair

Our analysis in section 11 of the Report concludes that the Offer is not fair to Shareholders.

Even in the scenario where the Company can only realise its liquid assets, the Offer remains not fair. This is evidenced by the low end of our assessed value range in section 9.3 of \$0.049 to \$0.050 being greater than the Offer consideration of \$0.04 per share.

12.2.2. The Offer is not fair on a minority interest basis

The expert's assessment of whether a takeover bid is fair must be based on a comparison between the value of the share on a control basis prior to the offer compared to the offer consideration. The value of the share subject to the takeover offer is assessed on a controlling interest basis because the acquirer should be expected to pay a premium to acquire a controlling interest. Therefore, by accepting a takeover bid, the minority interest shareholder is forgoing the opportunity to receive a control premium in the future.

However, given that all current Shareholders are minority interest holders, we consider it relevant for Shareholders for us to also compare the Offer consideration to the minority interest value of an MHM share.

A minority interest is the inverse of a premium for control and is calculated using the formula $1 - (1 \div (1 + \text{Control Premium}))$. As discussed in section 9.2, we consider an appropriate control premium for MHM to be in the range of 10% to 20%, giving a minority interest discount in the range of 9% to 17%.

The minority interest value of an MHM share compared to the Offer consideration is set out below.

	Low value \$	High value \$
Value of an MHM share prior to the Offer on a control basis	0.049	0.050
Minority interest discount	17%	9%
Value of an MHM share prior to the Offer on a minority basis	0.041	0.046
Value of Offer Consideration	0.040	0.040

The table above indicates that on a minority interest basis, for our low and high values including under the scenario in which only MHM's liquid assets can be realised, the Offer would remain not fair for Shareholders.

12.2.3. Shareholders will be unable to participate in the potential upside of prospective operations

If Shareholders accept the Offer, they will be unable to participate in the potential upside of prospective operations that the Company is currently exploring. The financial standing of the Company, in particular its holding of cash and cash equivalents, places it in a strong position to pursue other value-enhancing opportunities. If the Company successfully invests in an opportunity it is likely that the attractiveness of the Company will increase and in turn Shareholders may be offered a higher value for their shareholding. If Shareholders accept the Offer they will be unable to realise such an opportunity, should it eventuate.

12.2.4. Shareholders will be unable to benefit from the experience of the new Directors

As outlined in section 5.2, on 21 December 2016, three of the existing Directors were replaced by Mr Faldi Ismail, Mr Bryn Hardcastle and Mr Nicholas Young. A brief biography of each of the newly appointed Directors is set out below.

Mr Faldi Ismail

Mr Ismail has experience working as a corporate advisor specialising in the restructure and recapitalisation of ASX listed companies across a range of industry sectors. He has an investment banking background and has advised on a number of overseas transactions including capital raisings, structuring of acquisitions and joint ventures. Mr Ismail is the founder and operator of Otsana Capital and is a non-executive director of a number of ASX listed companies including Asiamet Limited, Dotz Nano Ltd, WHL Energy Limited, Cr8tek Limited and Ookami Limited.

Mr Bryn Hardcastle

Mr Hardcastle is an experienced corporate lawyer and is managing director of Bellanhouse Legal which predominantly advises on equity capital markets, re-compliance transactions and takeovers across a variety of industries. Mr Hardcastle is also a non-executive director of Attila Resources Limited, Cr8tek Limited and ServTech Global Holdings Ltd.

Mr Nicholas Young

Mr Young is a chartered accountant and has significant Australian and international experience in mining and exploration, mining services, renewable energy, professional services, manufacturing and transport. Mr Young has been involved in the recapitalisation of various ASX listed companies.

Given the previous experience and track record of the new Directors, there is a possibility that the Company may be able to identify alternate opportunities that provide value to Shareholders in excess of the Offer consideration. Therefore, a disadvantage of the Offer is that those Shareholders who accept the Offer, will forego the opportunity to participate in any potential benefits and access to new projects and ventures that the new Board may bring.

12.2.5. Shareholders may face potential tax implications

We note that there is no capital gains scrip-for-scrip rollover relief available under the Offer. If Shareholders accept the Offer, they may face potential tax implications such as crystallising a capital gains tax liability on the disposal of their shares. Individual shareholders should consult their tax advisers in relation to their personal circumstance.

12.3 Alternative Proposal

On 9 February 2017, MHM announced that it had received an intention to make an off-market takeover cash offer of \$0.0435 per share for all of MHM shares from Cadmon. This offer is at a (rounded) 9% premium to the Offer, and is based on the same conditions of the Offer. On 23 February 2017, Cadmon lodged a Bidder's Statement formalising its offer. Therefore, we consider there to be a superior proposal available to Shareholders.

12.4 Consequences of not accepting the Offer

Shareholders who reject the Offer could become minority shareholders in a Company in which Mercantile would have a controlling interest

As there is no minimum acceptance condition under the terms of the Offer, Shareholders will be able to accept the Offer for their respective shareholding in MHM regardless of the decision by other Shareholders. Consequently, Shareholders who reject the Offer may potentially be left holding a minority interest shareholding in a Company that Mercantile has a controlling interest in.

The incremental level of control that Mercantile may obtain as a result of the Offer are outlined below:

Controlling Interest	Company Influence
>5%	ability to requisition a general meeting of the Company
>10%	ability to prevent a compulsory acquisition
>25%	ability to block special resolutions
>50%	ability to block and pass general resolutions
>75%	ability to pass special resolutions
>90%	ability to initiate a compulsory takeover

Further, Mercantile has indicated that if it acquires 50.1% or more but less than 90% of the shares then it proposes to seek the appointment of a majority of Mercantile nominees to the Board and it will seek to

remove MHM from the official list of ASX. Therefore, if MHM gains control (greater than 50%), those Shareholders who did not accept the Offer face the risk of holding a share in an unlisted company.

MHM has until July 2019 to re-comply with Chapter 12 of the ASX Listing Rules or face automatic removal from the official list

ASX's policy is to remove from the official list any entity whose securities have been suspended from trading for a continuous period of three years. ASX considers this to be appropriate for the purpose of Listing Rule 17.12, which is set out below:

Listing rule 17.12 - Removal not at entity's request

ASX may at any time remove an entity from the official list if, in ASX's opinion, any of the following applies:

- the entity is unable or unwilling to comply with, or breaks, a listing rule;
- the entity has no quoted securities; and
- it is appropriate for some other reason.

We note that MHM was suspended from official quotation on 14 July 2016. The Company's securities remain suspended at the date of this report, as the Company has been unable to demonstrate compliance with Chapter 12 of the ASX Listing Rules.

If the Offer is not accepted, MHM will have until July 2019 to identify and consolidate an operational opportunity otherwise it will be automatically removed from the official list by the ASX.

12.5 Conclusion on reasonableness

Based on the above, we consider the disadvantages of accepting the Offer to outweigh the advantages, therefore we consider the Offer to be not reasonable for Shareholders.

13. Conclusion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is neither fair nor reasonable to the Shareholders of MHM.

As noted above, the Offer is not fair. Consequently, if a Shareholder has a longer term investment horizon and is willing to bare the risk that the value of MHM may decline below the Offer consideration prior to acquiring a new project or venture or being delisted, it would not be reasonable to accept the Offer, which is lower than the cash backing of the Company and forgo any potential upside of prospective operations. Also, we consider the Offer to be not reasonable because there is superior offer from Cadmon, which is available to Shareholders.

14. Sources of information

This report has been based on the following information:

- Mercantile's Bidder's Statement dated 12 January 2017 and supplementary Bidder's Statements;
- draft Target's Statement on or about the date of this report;

- audited financial statements of MHM and Mercantile for the years ended 30 June 2014, 30 June 2015 and 30 June 2016;
- unaudited management accounts of MHM for the half year ended 31 December 2016;
- supporting financial records of MHM;
- share registry information;
- Bidder's statement from Cadmon dated 23 February 2017;
- information in the public domain;
- MHM announcements; and
- discussions with the directors of MHM.

15. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$16,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by MHM in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the MHM, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to MHM and Mercantile and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of MHM and Mercantile, and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with MHM, or their associates, other than in connection with the preparation of this report. We note that we have been appointed as independent expert in relation to the takeover bid by Mercantile for the shares in EZA.

A draft of this report was provided to MHM and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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16. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of the Chartered Accountants in Australia & New Zealand. He has over twenty nine years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of Chartered Accountants in Australia & New Zealand and is a CA BV Specialist. Adam's career spans 19 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

17. Disclaimers and consents

This report has been prepared at the request of MHM for inclusion in the Target's Statement, which will be sent to all MHM Shareholders. MHM engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider if the off-market takeover bid by Mercantile for all the issued shares in MHM at \$0.04 per MHM share, is fair and reasonable to Shareholders.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Target's Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Target's Statement other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Mercantile. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Offer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of MHM, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

A black ink signature of Sherif Andrawes, written in a cursive style.

Sherif Andrawes

Director

A blue ink signature of Adam Myers, written in a cursive style.

Adam Myers

Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
AFK	Ask Funding Limited
Alcoa	Alcoa Inc
Alliance	Alliance Mining Commodities Limited
Alreco	Alreco Pty Ltd
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
Cadmon	Cadmon Ventures Pty Ltd
The Company	MHM Metals Limited
Corporations Act	The Corporations Act 2001 Cth
CY	Calendar year
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EZA	EZA Corporation Limited
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
Kin Mining	Kin Mining NL

Reference	Definition
Mercantile	Mercantile Investment Company Limited
Mercantile OFM	Mercantile OFM Pty Ltd
MHM	MHM Metals Limited
Moolap	Moolap plant located in Geelong, Victoria
NAV	Net Asset Value
NMP	Non Metallic Product
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
the Offer	off-market takeover bid by Mercantile for all the issued shares in MHM at \$0.04 per MHM share
our Report	This Independent Expert's Report prepared by BDO
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Shareholders	Shareholders of MHM not associated with Mercantile
USA	United States of America
US\$	United States dollars
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.

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For permission requests, write to BDO Corporate Finance (WA) Pty Ltd, at the address below:

The Directors

BDO Corporate Finance (WA) Pty Ltd

38 Station Street

SUBIACO, WA 6008

Australia

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

4 *Discounted future cash flows ('DCF')*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

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ANNEXURE 2 - MHM ASX ANNOUNCEMENTS

Date	Announcement
24-Feb-17	Becoming a substantial holder
23-Feb-17	Cadmon Ventures Pty Ltd - Bidder's Statement
22-Feb-17	Change in substantial holding from MVT
16-Feb-17	Chairman's letter to Shareholders
14-Feb-17	MVT: Replacement Bidder's Statement - MHM
9-Feb-17	Receipt of intention to make Off-market Takeover Offer
31-Jan-17	December 2016 Quarterly Activities & Cashflow Reports
31-Jan-17	MVT: Supplementary and Replacement Bidder's Statements - MHM
17-Jan-17	MVT: Supplementary Bidder's Statement
16-Jan-17	Results of Annual General Meeting
12-Jan-17	Sale of Executive 73 Vessel
11-Jan-17	Receipt of Bidder's Statement
11-Jan-17	MVT: Bidder's Statement
30-Dec-16	Addendum to Notice of Annual General Meeting
23-Dec-16	Alreco Update - Sale of Moolap Property
21-Dec-16	Final Director's Interest Notices x3
21-Dec-16	Initial Director's Interest Notices x3
21-Dec-16	Shareholder Update and Board Changes
16-Dec-16	Response to Proposed Takeover by Mercantile Investment Co
16-Dec-16	2016 Notice of Annual General Meeting/Proxy Form
16-Dec-16	AGM Update
15-Dec-16	Response to Announcement by Mercantile Investment Company
15-Dec-16	MVT: Intention to Make Takeover Bid - MHM Update
15-Dec-16	Becoming a substantial holder
15-Dec-16	Change of Director's Interest Notice
15-Dec-16	MVT: Intention to Make Takeover Bid - MHM

Date	Announcement
12-Dec-16	Mutual Termination of Proposed Merger with AMC
7-Dec-16	Initial Director's Interest Notice
7-Dec-16	Appointment of Director
2-Dec-16	Final Director's Interest Notice
2-Dec-16	Final Director's Interest Notice
2-Dec-16	Initial Director's Interest Notice
2-Dec-16	Board Changes and AGM Update
25-Nov-16	Change to Annual General Meeting Date
15-Nov-16	Clarification to ASX Announcement
15-Nov-16	Proposed merger with Alliance Mining Commodities Limited
31-Oct-16	September 2016 Quarterly Activities & Cashflow Reports
28-Oct-16	Sale of Executive 73 Vessel Update
27-Oct-16	Notice of Annual General Meeting/Proxy Form
21-Oct-16	Alreco Update
12-Oct-16	Alreco Update
30-Sep-16	Appendix 4G and Corporate Governance Statement
30-Sep-16	2016 Annual Report to Shareholders

CORPORATE DIRECTORY

Directors

Mr Faldi Ismail	Non-Executive Chairman
Mr Bryn Hardcastle	Non-Executive Director
Mr Nicholas Young	Non-Executive Director

Company Secretary

Justin Mouchacca

Registered and Principal Office

Level 4, 96-100 Albert Road
SOUTH MELBOURNE VIC 3025
Phone: +61 3 9692 7222
Fax: +61 3 9077 9233
Website: www.mhmmetals.com

Legal Adviser

Bellanhouse Legal
Ground Floor, 11 Ventnor Avenue
WEST PERTH WA 6005

Independent Expert

BDO Corporate Finance (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Share Registry*

Security Transfer Australia Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Phone: +61 8 9315 2333
Fax: +61 8 9315 2233

Securities Exchange Listing

Australian Securities Exchange (ASX)
ASX Code: MHM