QUARTERLY ACTIVITIES REPORT

ASX Release – 31 October 2011

CORPORATE

- Cash on hand $7.48 million at 30 September 2011

AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

- Gross Quarterly Cash Receipts of $1,138,506
- Gross Quarterly Operating Cash Surplus of $40,094 with trade receivables of $1.48 million
- 3,694 tonnes of salt slag and non-salt slag, and 1,846 tonnes of dross received during the quarter
- Additional upgrade of the salt slag plant completed to enable recovery of additional aluminium
- Quarterly profitability impacted by higher operating costs associated with commissioning and plant upgrades
- 24-hour closed-loop operations underway
- Landfill mining to commence once current stockpile of partly-processed salt slag reduced
- First shipment of AL80 awaiting departure
- Salt crystalliser under construction, continued construction of additional salt evaporation ponds

US ALUMINIUM OPERATIONS UPDATE

- Continued negotiation of US salt slag and black dross supply contracts
- Capacity for the first plant expected to be 200,000-250,000 tonnes per annum
- Contract signed to acquire land for construction of MHM's first US plant
- Applications submitted to state and local governments to finalise project incentives and concessions, results due mid-December 2011
- US trademark application lodged for 'Alreco' name and logo
- Permitting and engineering consultants have commenced project planning
- Advancing discussions with parties regarding non-dilutionary financing
- Continued engagement with parties interested in supplying salt slag to a second US recycling facility

SILICA PROJECT UPDATE

- Cape Sorell silica assays received, confirming suitability of material for silicon metal production. Other lump silica and silica flour sources under assessment
- Continued negotiation for offtake, silicon smelter discussions positive and ongoing
- No response to Tasmanian press speculation about project details

TASMANIAN EXPLORATION UPDATE

- Hill 99 VHMS copper-gold project drill results identified anomalous copper and zinc
- All significant field exploration expenditure curtailed until 2012. Focus is on aluminium business, and assessment of opportunities for mineral division spin-off and/or introduction of project development partners

ASX Codes:
MHM, MHMO

Issued Capital:
102.3M Ordinary Shares
25.4M Listed Options

Substantial Shareholders:
Rogers Southern PL 10%
Directors 13%
Top Twenty 23%

Directors:
Chairman – Basil Conti

Managing Director – Frank Rogers

Executive Director – Ben Mead

Executive Director – Simon Wells

Non-Exec Director – Dr Neil Allen

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CORPORATE

MHM Metals Limited had $7.48 million cash on hand at 30 September 2011.

AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

Financial results

MHM's Australian aluminium subsidiary Alreco Pty Ltd delivered Gross Quarterly Cash Receipts of $1,138,506 million with a Gross Quarterly Operating Surplus of $40,094. Alreco also had trade receivables of $1.48 million at 30 September 2011. A total of 3,694 tonnes of salt slag and non-salt slag, and 1,846 tonnes of dross were received during the quarter.

Profitability was impacted during the quarter by added costs associated with commissioning activity and upgrades to the plant. Alreco's business remains profitable as it has since the first day of operations in January 2010.

Alreco's profits are expected to substantially increase when reprocessing of Alcoa's 160,000 tonne salt slag landfill commences. This will occur when the stockpile of partly processed salt slag on MHM's site is reduced. Operating costs are also expected to significantly fall following steady state 24-hour processing.

Closed-loop operations continuing & plant upgrade completed

Closed-loop 24-hour recycling operations have commenced. The plant is ramping up to full capacity and is expected to reach this rate within the next two weeks. Upon attaining this throughput the plant will operate three shifts per day; one shift daily processing new material and two shifts daily processing partly processed salt slag. This will enable MHM to quickly clear the stockpile of partly processed material and commence landfill processing as soon as possible.

At present MHM is processing more material than is being received and so has begun reducing its on-site stockpile. The rate of this stockpile reduction will increase as the plant ramps up to capacity.

During the quarter an important upgrade of the salt slag plant has been successfully completed to recover additional metal. The upgrade enables this additional metal to be removed from the aluminium oxide fraction, thereby benefitting the quality of MHM's AL80 product.

First AL80 shipment

Alreco's first shipment of AL80, an aluminium oxide product, has been prepared and is awaiting departure. The first shipment of AL80 is currently awaiting Customs clearance, which has taken longer than anticipated by Impex on account of AL80 being a new product. The timing of this clearance is outside the control of MHM. Alreco also continues to receive enquiries from other parties for offtake of AL80.

Salt crystalliser construction underway

The order for the salt crystallisation plant has been placed and the design of the building is underway. Upon approval by Council, construction of the crystalliser plant and salt storage building will commence. The system will recover substantial volumes of water as compared to Alreco's current system of solar evaporation.

Additional salt pond construction continuing

Additional salt evaporation ponds continue to be constructed as required with one pond completed and in use, with two other ponds close to completion. Ponds will continue to be constructed over the next 12 months to provide for salt recovery from the landfill operations.

US ALUMINIUM OPERATIONS UPDATE

Supply Contract Negotiations

Salt slag supply negotiations in the United States are well advanced. MHM has also recently engaged with a number of additional companies that produce salt slag and black dross.

Black dross is a by-product from reverberatory furnace operations and has a similar composition to salt slag, albeit often with a higher aluminium content. Black dross would be recycled in the same way as salt slag, using

the same plant and equipment to recover aluminium, salt/potash and AL80. The appointment of US aluminium industry veteran John Pugh as MHM's Director of Operations, North America, initiated MHM's examination of black dross recycling opportunities. John's identification of this complementary opportunity and introduction to additional salt slag producers are of substantial value to MHM in the US.

The opportunity to recycle black dross is entirely complementary to salt slag recycling and is produced by companies that operate in the same sector as salt slag producers. In some cases the producers of salt slag also produce black dross. Investigations of opportunities to recycle black dross should not be viewed as a shift of focus, but as a potentially substantial additional revenue generator for MHM with minimal investment of extra resources. The recycling of salt slag and black dross go hand in hand. Company management acknowledges that finalisation of US supply contracts has taken longer than anticipated and every effort is being made to finish these.

The timeframe for contract completion does not undermine the compelling business case for salt slag recycling in the US. MHM has limited control of contract signing timeframes but will persist in advancing finalisation.

Dynamics of the US aluminium industry

It is important that investors not lose sight of the magnitude of the opportunity in front of MHM. Part of the challenge is that MHM will bring substantial change to long-standing industry waste disposal practices.

MHM's task is made more challenging because companies have tried to recycle salt slag in the past and failed. It takes time to establish relationships and trust and MHM is making steady progress in this regard. Another challenge is to convince companies of the volume of aluminium in their salt slag. Even when faced with independent testing of salt slag aluminium recoveries, management has encountered unwillingness to accept that metal losses could be as high as indicated by the testing.

MHM has been advocating a 'tolling' engagement with most companies, charging a fixed price per tonne as in Australia. MHM has also been exploring alternate contractual structures for salt slag and black dross processing, such as simply charging a tipping fee for receipt of material and assuming ownership of recovered material. It is believed this will speed the path to contract finalisation and hasten plant construction and commencement of operations.

Executive Director Ben Mead is satisfied with MHM's US progress and is very confident that salt slag and black dross recycling is the way of the future in the US. At a recent industry conference in Chicago Ben was informed that the EPA is considering the regulation of salt slag as a hazardous waste at a federal level in the US – this would be a huge boost to MHM's business. Regardless, management is very confident that the opportunity presented to MHM is immense and the US expansion does not depend on changing regulations.

Site Selection

MHM has largely resolved the preferred location for construction of the first US salt slag and black dross recycling plant, and has a conditional purchase contract in place. Information about the site will be provided following completion of an initial environmental study and confirmation of government grants and incentives.

It is expected that this location would support a plant capacity of 200,000-250,000 tonnes per annum, and potentially higher in due course.

Government grants and incentives

MHM has formally submitted an application for government grants and incentives, with results due in mid-December. A detailed overview of the incentives and concessions available to MHM will be provided after this time. Meetings with state and local officials have been extremely positive and management is confident of securing support.

Salt slag landfills / stockpiles

MHM has identified additional landfilled/stockpiled salt slag that may present opportunities for recycling. MHM has undertaken research and entered discussions to assess viability.

Trademark Registration

MHM has lodged an application with the US Trademark Office to register the 'Alreco' name and logo as company-owned trademarks. Alreco will be MHM's brand for US aluminium operations, as in Australia. It is understood that the trademark may be confirmed by years' end.

Additional plant location opportunities

MHM continues to engage with a number of companies with operations in northeastern United States and southeastern Canada, to assess further salt slag and black dross recycling opportunities. A substantial volume of material has been identified in this region as well as companies supportive of MHM's business that recognise the imperative to cease landfilling.

SILICA PROJECT UPDATE

Cape Sorell Silica Project

Drill core assays from the six hole diamond drilling program at North Escarpment that was completed in July have recently been received. As expected a high purity quartzite unit within a package of less silica rich sediments was intersected. The true thickness of the quartzite unit varies 9-13.5m. The quartzite unit is white in colour, very hard and is similar in composition and appearance to the surface rock chips that average approximately 99.6% SiO2. It forms a scarp sub parallel to the coastline and may represent an old cliff face with fault lines now eroded to form embayments in the face.

Figure 1 shows a geological map of the North Escarpment with drill hole locations. The quartzite unit dips to the west at approximately 50° and drill holes were inclined at -45° so as to intersect the quartzite approximately at right angles.

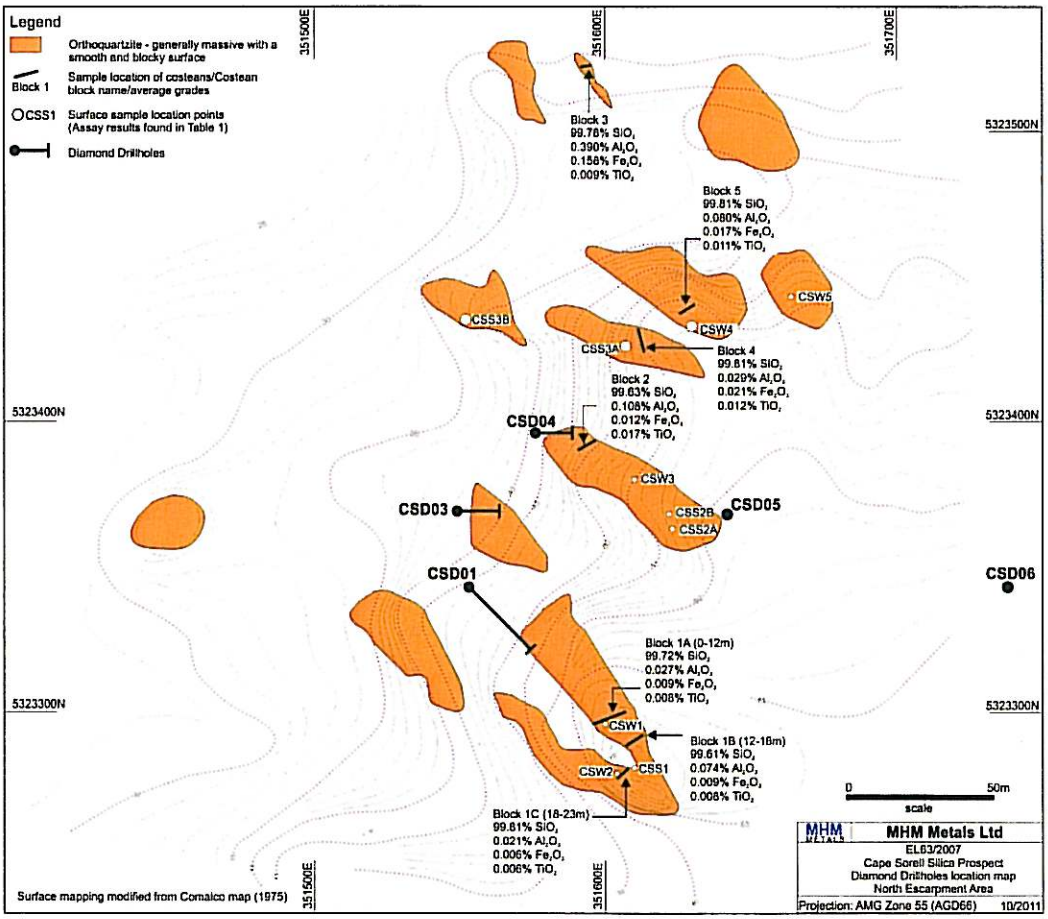

Figure 1. Geological plan of North Escarpment showing quartzite outcrops (orange), drill holes and channel chip results from trenches (from Comalco, 1974).

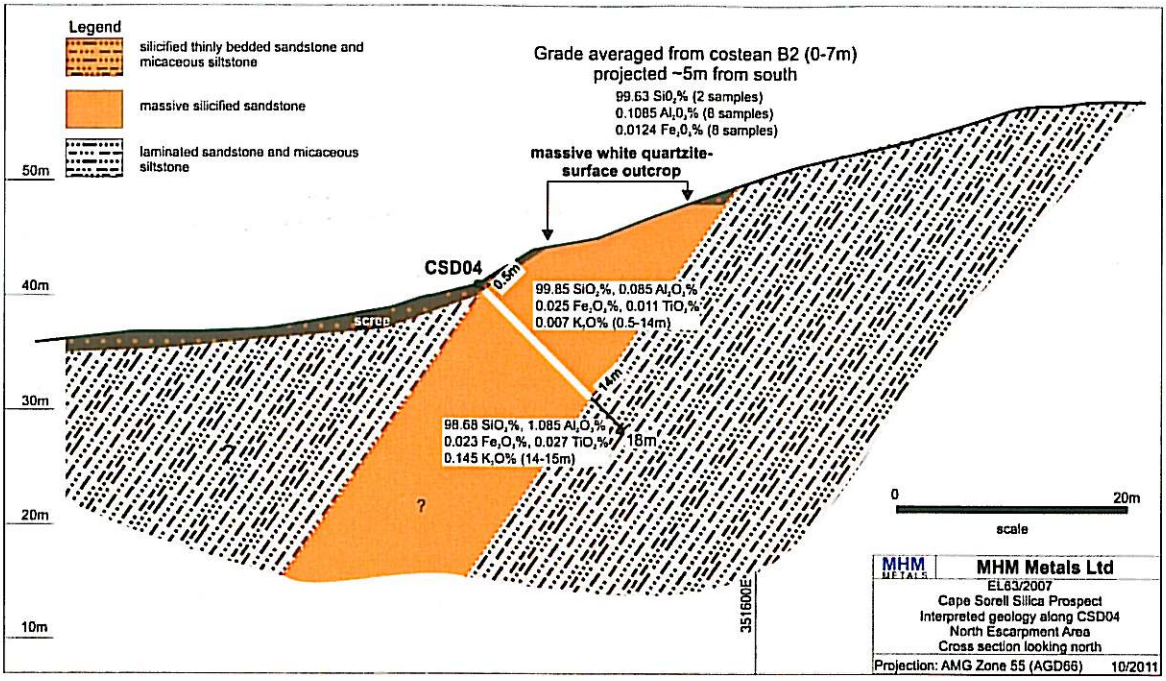

Figure 2. Cross section of CSD04 showing intersection of quartzite and associated assays. Results of channel chips from a previously sampled trench at the outcrop.

Results of the drilling with major normal contaminants are shown in table 1. Silica (SiO_2) is calculated by difference.

HoleID	East	North	Az	Collar Dip	From	To	Intersection (m)	True thick (m)	SiO2%	Al2O3%	Fe2O3 %	TiO2%
CSD-01	351553	5323343	135	-45	4.5	16	11.5	9	99.69	0.214	0.023	0.012
CSD-03	351549	5323369	90	-45	4	7.7	3.7	3.7	99.85	0.060	0.022	0.013
					11	19	8	8	99.58	0.243	0.060	0.008
CSD-04	351576	5323396	90	-45	0.5	14	13.5	13.5	99.85	0.085	0.025	0.011

Contaminant levels are generally within tolerances for normal Industrial applications, depending upon the downstream product required. Silica grades are consistent with surface channel chip samples from trenches, most of which were collected in the 1970's by Comalco Australia and have subsequently been verified by MHM.

Hole CSD02 was abandoned at 2.5m and holes CSD05 and CSD06 were drilled to test the thickness of an extensive leached capping over the sandstone-siltstone units hosting the quartzite. The thickness of the leached cap rock is not considered commercially significant.

The drilling has shown that the quartzite unit extends below the depth of the extensive leached cap and is therefore primary. The quartzite has been faulted into blocks that will require more detailed drilling to delineate and no resource estimation can be made at this time.

Further work on Cape Sorell is warranted, the timing will be based on ongoing offtake discussions and in light of the outcome of more advanced acquisition opportunities discussed below.

Other Silica Opportunities

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

Investors should note that MHM does not intend to make any such acquisitions until further milestones for the Tasmanian silicon smelter concept are met, and/or offtake negotiations become more advanced.

MHM continues to work with a number of parties concerning offtake of lump silica and silica flour for export and for use in a proposed Tasmanian silicon smelter. During the quarter there was continued speculation in the Tasmanian media on the details of the silicon smelter development. MHM chooses to refrain from comment.

TASMANIAN EXPLORATION UPDATE

Hill 99 Copper-Lead-Zinc Drilling Results

Two diamond drill holes were completed at Hill 99 in August 2011 and results were announced on 25 August 2011. The best result was 0.3m @10.55% Cu +15g/t Ag from 177.6m. As announced previously three anomalous copper zones are apparent from surface sampling and drilling.

The target type at Hill 99 is for a VHMS style deposit, similar in style and mineralisation to the established mines further north at North Lyell and Henty. Since August a thorough geological investigation of the core at Hill 99 using state of the art techniques revealed that mineralisation is not of the VHMS type and is more likely to be structurally emplaced in an over thrust nappe. Although very similar in petrology and geological context, the mineralised rocks have subtle differences from most of the VHMS deposits to the north. Structurally emplaced copper-gold deposits of this type are usually more lenticular than VHMS style deposits and while still regarded as prospective, the geological risk is increased. As a result other more prospective targets will be prioritised ahead of further work on Hill 99.

Exploration Expenditure

All further drilling programs and other costly exploration expenditure has been curtailed by MHM until 2012 so the company can focus on its Australian and US aluminium projects. The timeframe will allow the company's cash reserves to grow to an even more comfortable level, and for the company to continue to advance opportunities to involve project development partners and opportunities for mineral asset spin-offs or divestment.

FURTHER INFORMATION:

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JORC Compliance Statement

Information in this report that relates to Exploration results, Mineral Resources or Ore Reserves is based on information compiled by Richard Lindsay (Exploration Manager for MHM) who is a member of the Australian Institute of Geoscientists. Richard Lindsay has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves". Richard Lindsay consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

MHM Metals Limited

ABN

41 124 212 175

Quarter ended ("current quarter")

30 September 2011

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (3 months) $A'000
1.1	Receipts from product sales and related debtors	1,029	1,029
1.2	Payments for (a) exploration & evaluation	(288)	(288)
	(b) development	(149)	(149)
	(c) production	(990)	(990)
	(d) administration	(403)	(403)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	110	110
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(691)	(691)
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets		
	(i) Exploration activities	(81)	(81)
	(ii) Aluminium processing activities	(884)	(884)
1.9	Proceeds from sale of:	-	-
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets		
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	(965)	(965)
1.13	Total operating and investing cash flows (carried forward)	(1,656)	(1,656)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(1,656)	(1,656)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	143	143
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(35)	(35)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	108	108
	Net increase (decrease) in cash held	(1,548)	(1,548)
1.20	Cash at beginning of quarter/year to date	9,021	9,021
1.21	Exchange rate adjustments to item 1.20	7	7
1.22	**Cash at end of quarter**	7,480	7,480

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	303
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	Nil	Nil
3.2	Credit standby arrangements	Nil	Nil

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	(271)
4.2	Development	(1,586)
4.3	Production	(865)
4.4	Administration	(475)
	Total	**(3,197)**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	7,480	9,021
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	7,480	9,021

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed				
6.2	Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	102,334,203	102,334,203		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	716,793	716,793		
7.5	**+Convertible debt securities** *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	27,570,192	25,438,967	*Exercise price* 20 cents	*Expiry date* 31 August 2012
		1,100,000	-	20 cents	28 November 2013
		1,000,000	-	20 cents	14 December 2013
		370,000	-	25 cents	9 October 2014
		1,900,000	-	28 cents	30 November 2014
		100,000	-	28 cents	4 January 2015
		300,000	-	85 cents	6 October 2015
		300,000	-	180 cents	20 June 2016
		150,000	-	100 cents	30 June 2016
		100,000	-	126 cents	23 August 2016
7.8	Issued during quarter			*Exercise price*	*Expiry date*
		150,000	-	100 cents	30 June 2016
		100,000	-	126 cents	23 August 2016
7.9	Exercised during quarter	(716,793)	(716,793)		
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				

+ See chapter 19 for defined terms.

7.12	**Unsecured notes** *(totals only)*		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).

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

Sign here: ..... Date: 31/10/2011
(~~Director~~/Company secretary)

Print name: Richard Rybak

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.