

MHM QUARTERLY ACTIVITIES REPORT

ASX Release – 30 April 2012



CORPORATE

- \$4.3m cash on hand
- Positive feedback from US and UK investor roadshow

AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

- Gross Quarterly Cash Receipts of \$1,012,764
- Gross Quarterly Operating Cash Surplus of \$12,237 with Trade Receivables of \$1,261,849
- 3,647 tonnes of salt slag and non-salt slag, and 937 tonnes of dross received during the quarter
- All salt cake and dross delivered to site is being recycled in a closed-loop process, with continuing reduction of stockpiled partly-processed salt cake
- Production refinements being successfully implemented to address challenges caused by partly-processed salt cake, operations continuing during this process
- First shipment of AL80 has departed following the engagement with Australia Bandfield Group

US ALUMINIUM OPERATIONS UPDATE

- Site works underway at MHM's 115-acre site in Russellville, Kentucky
- Plant design and assessment of capital cost at advanced stage, management believes final capex could be considerably below initial US\$25m budget estimate
- Targeted earnings from first US plant US\$25m per annum when operating at full capacity
- Additional contract negotiations ongoing
- Project finance favouring non-dilutionary mechanisms

SILICA PROJECT UPDATE

- Continued progress re supply contracts to underwrite Tasmanian silicon smelter proposal
- Analysis of additional high purity silica resources with the potential to fast-track production
- Engagement of corporate advisors regarding silica division spin-off

CORPORATE

Cash Reserves

MHM Metals Limited had \$4.3 million cash on hand at 31 March 2012.

International Institutional Investor Roadshow

A preliminary US and UK roadshow has been completed with positive feedback in every instance. The purpose of the roadshow was to introduce potential new investors to MHM and generate more support for the share price in any market weakness or low news flow.

ASX Codes
MHM, MHMO

Issued Capital
104.4M Ordinary Shares
23.7M Listed Options

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

Directors

Chairman – Basil Conti
Managing Director – Frank Rogers
Executive Director – Ben Mead
Executive Director – Simon Wells
Non-Exec Director – Dr Neil Allen

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AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

Financial Results

MHM's Australian aluminium subsidiary Alreco Pty Ltd delivered Gross Quarterly Cash Receipts of \$1,012,764 million with a Gross Quarterly Operating Surplus of \$12,237. Alreco also had trade receivables of \$1,261,849 million at 31 March 2011. A total of 3,647 tonnes of salt cake and non-salt cake, and 937 tonnes of dross were received during the quarter.

During the reporting period Alreco continued with process improvements and changes to the plant circuitry. These improvements have resulted in the plant being capable of operating with reduced personnel, lower operating costs and lower maintenance costs.

It has been deemed appropriate to regard a majority of the expenses incurred by the company to date as research and development and as such the actual operating profit disclosed is lower than it would be if these expenses were treated differently. Alreco has made application for a Research and Development Grant to assist the company by recovering a benefit from this expenditure.

Additionally Alreco is now processing the stored, partly processed material as well as its daily arisings. This adds operating costs to the quarter's activities whilst the income for this material was received in prior quarters.

Operational performance

Alreco's Geelong facility is successfully processing all salt cake delivered to site and stockpiles are reducing. The technology is working efficiently and daily throughputs continue to increase.

Processing challenges caused by the partly processed material generating larger volumes of gas than expected will be addressed through the implementation of production refinements. This change largely relates to the manner material is moved around the plant and will now be replicated in other areas of the processing facility.

The refinements are being implemented as the plant continues to run as normal. Alreco is processing all material delivered to site and reducing stockpiles of partly processed salt cake. When all changes are implemented production at the Geelong plant will operate at the previously advised capacity of 60,000 tpa.

While these changes were driven by materials handling requirements of the partly-processed salt cake, management will also implement this new method in the United States. This is expected to result in reduced capital and operating costs for MHM's US-based salt cake recycling plants. Management is working urgently to confirm the capital cost of the US facility to determine facility funding. It is believed that these production refinements and other site-specific measures could reduce the capital cost of the Russellville, Kentucky facility to significantly below the previously estimated US\$25 million budget.

As previously advised, when reprocessing the stockpile of partly processed salt cake is completed, Alreco will commence processing Alcoa's 160,000 tonne salt cake landfill. When landfill processing commences Alreco's earnings are expected to increase to the forecast \$8 million EBITDA per annum. Geelong plant EBITDA forecast remains unchanged.

AL80 Update

The first shipment of AL80 has left Alreco's Geelong facility. AL80 is an aluminium oxide product that results from the closed-loop salt cake processing technology for which MHM has exclusive, perpetual global rights.

During the quarter MHM cancelled an exclusive supply contract with Impex Minerals Pty Ltd for the offtake of AL80. The contract was cancelled following repeated non-performance by Impex of key conditions precedent to the contract and repeated failure to deliver on time. On 23 February MHM announced that the first anticipated shipment date for AL80 would be 5 March 2012. This date was provided following written and verbal assurance by Impex that shipping would commence on this date. Due to non-compliance by Impex, MHM cancelled the exclusive supply contract with Impex.

MHM immediately proceeded with an alternative buyer of MHM's AL80 product, signing a Letter of Intent with Australia Bandfield Group for the supply of all AL80 produced in Australia. Established in 1994, Bandfield works with a range of businesses including ship broking, export and sales of mineral and agricultural products and advisory services in mining, port infrastructure and investment. The scope of its business also includes advice and evaluation for Australian or Asian companies seeking joint venture investments and providing shipping solutions for Australian companies seeking to reach Asian markets.

Salt Crystallizer Construction

Alreco recently received council approval for construction of the buildings to house the salt crystallizer. The timeframe for completion of construction of the plant is twelve months. The timeframe will not impact operations in Moolap due to the ability to use evaporation ponds.

US ALUMINIUM OPERATIONS UPDATE

Property Acquisition

US subsidiary MHM Metals Corporation has settled the purchase of its 115-acre industrial site in Russellville, Kentucky. The property will be MHM's first US salt cake and black dross recycling facility.

The final settlement figure of \$838,761 was funded from MHM's existing cash. The company is finalising process plant design and costing, with a number of existing buildings on site expected to decrease the time and expense of plant construction. The site is zoned correctly for its purpose.

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

- Over 350,000 tonnes of salt slag and black dross generated per annum in proximity to the plant site
- Government financial support and incentives, and the pro-business sentiment in Logan County
- Highly skilled local workforce and availability of workers
- Availability of rail
- Availability of ample energy and water supplies

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

Plant Design and Capital Cost

Plant layout and design has been completed and management is working with engineering consultants to finalise capital costs and timeframes for completion. The existing buildings are ideally suited for the processing plant, and there is much enthusiasm in the management team for the property. Environmental permitting applications are being prepared and preliminary civil site works, renovations of the office facilities and preparation for expedited construction of the rail spur are underway.

MHM has a conservative preliminary budget estimate of US\$25 million for construction of its 250,000 tonne per annum plant, though it is expected that the existing site infrastructure, availability of second-hand processing equipment and recently announced process refinements could reduce this figure below US\$20 million.

Contract Negotiations

Contract negotiations continue to progress in the United States to add additional processing volume to the three supply contracts already signed. It is anticipated that the company will continue to secure contracts over the course of plant construction and commissioning. A number of companies expressed keen interest in supporting MHM's business however do not wish to commit contracts until the plant is operational. As a cost competitive substitute to landfill, the MHM environmentally responsible alternative is compelling.

US Financial Projections

Targeted earnings for this first US facility for salt cake and black dross processing, aluminium oxide sales and ancillary activities is US\$25 million per annum when operating at full capacity. MHM expects to operate at 250,000 tonnes per annum within 12 months of commencement of operations.

Project Finance

Management continues to assess the project-financing alternatives. As always, management will have utmost regard for minimisation of shareholder dilution as we work to maximise Earnings Per Share. The timeframe for completion of project financing will follow finalisation of plant design, costing and scheduling. Management is working urgently on this.

SILICA DIVISION UPDATE

MHM owns an exploration license encompassing an area high purity silica mineralisation in Tasmania that is prospective for use in high purity silicon metal production. Silicon metal is an advanced commodity traditionally produced by smelting high purity silica with carbon. Silicon metal has numerous applications

including in the production of photovoltaic cells, computer chips, and a range of high-tech products that increase efficiencies and reduce energy consumption.

In addition to the Company's exploration work at Cape Sorell, considerable effort has been devoted to securing other high purity silica reserves that show potential to decrease silicon metal production costs and expedite project development and offtake negotiations.

The company continues to examine a number of other lump silica and silica flour opportunities in Tasmania and mainland Australia. The company is in continued 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.

Tasmania's extensive renewable energy reserves and strategic port infrastructure provide an attractive environment for the establishment of a silicon smelter. The addition of silica resources, in an advanced stage of exploration, would complement the Cape Sorell silica prospect and strengthen the case for the construction of a smelter in Tasmania.

Should this smelter materialise it will be a very large undertaking for MHM, and considerable progress is being made to investigate financial and corporate structures that maximise shareholder benefits. MHM has engaged Alex Fabbri, Director of Moore Stephens Corporate Finance in this regard and also to provide assistance with contract negotiations.

FURTHER INFORMATION:

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Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

MHM Metals Limited

ABN

41 124 212 175

Quarter ended ("current quarter")

31 March 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	838	2,770
1.2 Payments for		
(a) exploration & evaluation	(203)	(677)
(b) US development	(223)	(513)
(c) production	(826)	(2,280)
(d) administration	(600)	(1,453)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	86	292
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – research & development tax incentive	88	88
Net Operating Cash Flows	(840)	(1,773)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets		
(i) Exploration activities	-	(95)
(ii) Aluminium processing activities	(221)	(2,638)
(iii) US property acquisition	(790)	(790)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	29	29
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(982)	(3,494)
1.13 Total operating and investing cash flows (carried forward)	(1,822)	(5,267)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,822)	(5,267)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	209	554
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	99	99
1.17	Repayment of borrowings	(33)	(84)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	275	569
	Net increase (decrease) in cash held	(1,547)	(4,698)
1.20	Cash at beginning of quarter/year to date	5,872	9,021
1.21	Exchange rate adjustments to item 1.20	(47)	(45)
1.22	Cash at end of quarter	4,278	4,278

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	395
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	(25)
4.2	Development	(1,270)
4.3	Production	(639)
4.4	Administration	(438)
Total		(2,372)

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	4,278	5,872
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		4,278	5,872

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.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	104,230,268	104,230,268		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	1,152,532	1,152,532		
7.5 *Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	25,804,127	23,872,902	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 31 August 2012
	1,000,000	-	20 cents	28 November 2013
	1,000,000	-	20 cents	14 December 2013
	340,000	-	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
	300,000	-	100 cents	5 November 2014
	1,450,000	-	171 cents	29 November 2016
	150,000	-	135 cents	14 February 2017
7.8 Issued during quarter	150,000	-	<i>Exercise price</i> 135 cents	<i>Expiry date</i> 14 February 2017
7.9 Exercised during quarter	(1,152,532)	(1,152,532)		
7.10 Expired during quarter				

+ See chapter 19 for defined terms.

7.11	Debtures <i>(totals only)</i>		
7.12	Unsecured notes <i>(totals only)</i>		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  Date: 30/4/2012
(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.