

MHM Progress Report

ASX Release – 25 May 2012



- Geelong salt cake and dross recycling operations continuing to perform well
- New equipment necessary to finalise process refinements due on site by the second week in June; plant expected to operate at 60,000 tonnes per annum after implementation of this equipment
- MHM and Alcoa exploring mechanism to commence landfill processing as soon as possible
- First shipment of AL80 arrived at destination port and cleared first two stages of a three-stage customs process
- US plant design nearing completion, independent capex confirmation underway together with preparation of environmental permit submissions
- Strategic decision to build the Russellville, KY plant in two 125,000 tpa phases to lower initial capex and reduce idle capacity at the facility while additional processing contracts are finalised
- Rail spur design and costing completed
- Preliminary site works continuing including upgrade of onsite offices, parking, security fencing and amenities
- Additional significant US supply contract close to finalisation
- Contract discussions with other suppliers of aluminium waste streams including salt cake and black dross ongoing and positive
- Investigation of debt, hybrid and equity financing mechanisms for US plant advancing well
- Silica spin off advancing

MHM Metals Limited (ASX:MHM) confirms that salt cake and dross recycling operations in Geelong continue to perform well. Daily operating tonnages are continuing to exceed incoming material allowing reduction in our current stockpile of partly processed material. A recently announced trial of small changes to the salt cake recycling process has been very successful. These changes will be implemented on a permanent basis following the delivery and installation of necessary equipment, expected no later than the second week of June 2012. These small changes relate to the handling of material in the process. When installed we expect the Geelong facility to operate at 60,000 tonnes per annum of combined salt slag and dross.

MHM and Alcoa are exploring mechanisms to enable MHM to commence the processing of Alcoa's 160,000 salt cake landfill as quickly as possible. This is an important event for MHM as it will enable profitability of the Geelong facility to increase to the forecast \$8m EBITDA per annum during the excavation of the landfill. MHM aims to update the market on this in the near future.

The first shipment of AL80, MHM's aluminium oxide product, has arrived at its destination port and has cleared two stages of a three-stage customs process. Bandfield Australia have advised MHM that no issues are anticipated in completing the third stage.

MHM continues to investigate appropriate mechanisms to spin off the silica division of the company. Negotiations are progressing with various project stakeholders and the Company will provide a more detailed update to market when the project reaches a more definitive stage.

Design of MHM's first US aluminium waste recycling facility is nearing completion with independent confirmation of capital costs underway and environmental permit applications being prepared. Management has made a strategic decision to build the 250,000 tonne per annum plant in two 125,000 tpa stages, rather than building the entire 250,000

ASX Codes

MHM, MHMO

Issued Capital
105.3M Ordinary Shares
23.0M 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

Contact:
PO Box 21
KINGSTON TAS 7051

T: +61 (0)3 6229 9955
F: +61 (0)3 6229 8430
W: www.mhmmetals.com
E: info@mhmmetals.com

ABN: 41 124 212 175

tpa and having an initial period of surplus capacity. This will lower initial capex for the facility and reduce idle capacity while additional processing contracts are finalised. It is expected this strategy will enable the second stage to be funded from internal cashflows.

The rail spur design and costing is completed with a projected cost of US\$600,000. MHM has received a US\$250,000 grant for the rail spur and the balance of the cost will be funded as part of the overall financing package for the Russellville facility.

Preliminary site works that do not require permitting are occurring including erecting security fencing around the facility, an upgrade of the office for immediate use, construction of the parking area and reinstatement of staff amenities. A large steel water tower will be sold in the coming weeks for a modest cash return.

Management are confident of soon securing an additional significant US supply contract. It is important to note that timeframes for finalising the contract are determined by the other party, and that MHM management is doing everything it can to cement the deal. Management appreciates that this contract will be an important milestone not only for our shareholders but also as a precursor to complete financing of the Russellville facility. Contract discussions with other suppliers of salt cake and black dross are ongoing and positive. The return of executive director Ben Mead to the US this week will assist in turning those discussions into new additional supply contracts.

Investigation of debt, hybrid and equity financing mechanisms for the Russellville facility are advancing well and will accelerate following independent confirmation of the capital costs for the facility.

In recent weeks there has been a large volume of shareholder enquiries to management, linked to the share price volatility. The business of treating aluminium waste is complex and technical and usually difficult to explain. The contract negotiations with our customers also have to be kept confidential and there are trade secrets important for us to preserve. MHM must balance all these factors in trying its best to also be open and communicative with shareholders. Operating decisions often have to be made instantly for production to run smoothly and usually need to be given time to demonstrate that the process adjustment is optimal. Shareholders are assured that the company does everything in its power to maximise profits and minimise uncertainty.

A lot of management time is taken up with shareholder inquiries which effects efficiency in our day-to-day operations. We are seeking to remedy this in part by changing our website to be a more useful information resource for our shareholders and the investing public. New initiatives including publicising some of the questions and answers will be part of the website within the next two months.

Again, we assure shareholders that profitable operations are our priority and the MHM management team is working extremely hard to deliver high performance. The Directors of MHM are grateful for the continued support of our long term shareholders and are hopeful that our monthly Progress Reports provide you and the broader market with sufficient information to encourage support and better understand our business.

FURTHER INFORMATION:

Rudi Michelson
Monsoon Communications
+61 (0)3 9620 3333
rudim@monsoon.com.au