

# MHM COMPANY UPDATE

ASX Release – 7 October 2011



This is the first of a series of MHM Metals Limited (ASX:MHM) monthly company progress reports. The reports will strengthen communication with shareholders and hopefully increase stability in the MHM share price by spreading the confidence and enthusiasm that company management has for MHM's future. This will give shareholders a regular and detailed company information source, especially on month-to-month progress.

## AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

An important upgrade of the salt slag plant has been successfully completed in order 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. The upgrade was completed on 23 September except for the delivery of screens, which were delivered and installed this week. With the upgrade now complete it is expected that 24-hour production of this section of the plant will commence next week.

Importantly, the plant at Moolap has continued to be operational processing salt slag and dross on a tolling basis for its customers Alcoa and Sims during the upgrade period.

Upon commencement of 24-hour operations, Alreco will commence re-processing the stockpile of partly-processed salt slag, in addition to ongoing delivery of new salt slag, non-salt slag and dross.

When this stockpile is reduced Alreco will begin processing Alcoa's 160,000 tonne salt slag landfill. Landfill processing will be used to balance the throughput of the plant – processing the landfilled salt slag resource will vary according to volumes received from Alcoa and Sims. This will enable Alreco to maximise plant throughput and efficiency. It is expected that the landfill will be processed at about 35,000 tonnes per year over five years, in addition to the estimated 24,000 tonnes per year delivered from Sims and Alcoa. Alreco is also exploring opportunities to increase 'non-landfill' feedstock.

Additional salt evaporation ponds continue to be constructed as required with one pond completed and in use and 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.

The order for the salt crystallisation plant has been placed and the design of the building is now underway. Upon approval by Council, construction of the crystalliser plant and salt storage building will commence.

The first shipment of AL80 is currently awaiting Customs clearance, which has taken longer than anticipated by Impex, on account of the AL80 being a new product. The timing of this clearance is outside the control of MHM.

## US ALUMINIUM OPERATIONS UPDATE

### *Contract negotiation*

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.

### **ASX Codes:**

MHM, MHMO

### **Issued Capital:**

102.3M Ordinary Shares

25.5M Listed Options

### **Substantial Shareholders:**

Rogers Southern PL 10%

Directors 13%

Top Twenty 33%

### **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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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 as soon as we can.

#### *Dynamics of the US aluminium industry*

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

MHM's task is made more challenging by the fact that companies have tried to recycle salt slag in the past and failed. This means that 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. MHM has been advocating a 'tolling' engagement with most companies, charging a fixed price per tonne, as in Australia. Without having a plant to run trials and demonstrate the quality of the recovered aluminium and salt /potash flux, it takes more time to build confidence.

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 in the US is immense and MHM's expansion into the US does not depend on changing regulations.

#### *Site Selection*

MHM is assessing a number of sites in the US for construction of the first salt slag and black dross recycling plant. Site selection is dependent on a number of factors, most importantly the proximity to salt slag and black dross suppliers. Detailed site due diligence – including purchase price and negotiation of acquisition terms – continues on a number of sites and final acquisition will be based on completion of supply contract negotiation. There is more than one potential site for MHM's first US plant and management will carefully assess the short list. Management is aware that both supply contract completion and site determination should help stabilise the share price.

#### *Salt slag landfills / stockpiles*

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

#### *Additional plant location opportunities*

MHM continues to engage with a number of companies with operations in north eastern United States and south eastern 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.

#### *Government grants and incentives*

MHM is engaged in advanced discussions on government grants and incentives. However a package will not be finalised until plant location has been determined as the scope of financial support depends on ultimate plant location.

**Further information:**

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