

# MHM COMPANY UPDATE

ASX Release – 22 December 2011



- Steady-state operations in Geelong, with salt slag recycling plant operating to specification and AL80 plant in final commissioning phase
- 24-hour operations to commence in January
- Significant progress for completion of AL80 customs paperwork, delays unrelated to product performance
- US site announced in Russellville, KY with settlement scheduled for late Jan 2012
- Existing building to assist with project development costs and timeframes
- Considerable government grants and incentives to assist with project development
- Additional contract negotiations ongoing
- Financial modelling to be provided in due course
- Project finance favouring non-dilutionary mechanisms with roadshow planned to increase investor awareness and provide on-market support

**ASX Codes**  
MHM, MHMO

**Issued Capital**  
103.1M Ordinary Shares  
25.0M 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

## AUSTRALIAN ALUMINIUM OPERATIONS UPDATE

Geelong salt slag recycling operations are performing to specification, with steady-state operations underway. Alreco will operate on a two-shift until after the Christmas period, with three-shift 24-hour processing due to commence in January 2012. The stockpile of partly-processed salt slag is expected to take three months to reduce, and upon completion the processing of Alcoa's 160,000 tonne salt slag landfill will commence.

MHM has made significant progress in the finalisation of customs paperwork relating to export of AL80, Alreco's aluminium oxide product. The delays are a bureaucratic matter and completely unrelated to the desire of the end user to purchase the product. Impex Metals, Alreco's contract partner for export of the material, had been assuming responsibility for managing finalisation of customs documentation. However, Alreco has now assumed responsibility for this and has invested considerable resources to expedite the process. The company remains highly confident of resolving the issue. It should also be noted that Alreco has alternate avenues for selling the AL80 product, however the company remains mindful of maximising long term economic returns rather than short-term interests of sending the first shipment of product. Management remains committed to an expeditious resolution of this issue.

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## US ALUMINIUM OPERATIONS UPDATE

### *Site Selection*

As recently announced, US subsidiary MHM Metals Corporation has negotiated to acquire a 115-acre landholding in Russellville, Kentucky. The site contains a number of existing buildings that should decrease the time and expense of plant construction. The site is zoned correctly for its intended purpose.

MHM will operate the site, and the entire US aluminium business under the name Alreco, as occurs in Australia. MHM has a pending US trademark for the Alreco name and the Alreco logo.

After assessing over 30 sites throughout the middle Tennessee and southern Kentucky region, the Russellville site is the preferred location for plant construction. Factors that contributed to this include:

- Identification of in excess of 350,000 tonnes per annum of salt slag and black dross within an economic radius of the plant site
- Large acreage providing Alreco the opportunity to grow and assimilate planned future technology developments
- Government support and incentives, not only financial but also the pro-business environment in Logan County
- A highly skilled local workforce and availability of workers
- Availability of rail, with a high-quality rail operator
- Availability of ample electricity supplies to the property for initial and future requirements

While MHM had initially favoured a site in southern Tennessee close to two large salt slag producers, management made the strategic decision to locate further north. The Russellville location remains an economic distance from these two secondary aluminium companies, but makes the facility less dependent on volumes produced by these two companies by introducing additional salt slag and black dross producers further north. This strengthens MHM's negotiating position for future contracts, with Alreco's facility less reliant on any volume fluctuations from the two large producers on account of a changing business environment. As most US secondary aluminium producers operate on short-term contracts, the supply of salt slag over the long term can fluctuate and as such it is in Alreco's best interests to locate further north to access additional producers to lower supply volume risk over the long term.

#### *Government Grants and Incentives*

The Kentucky Economic Development Finance Authority has approved Alreco for tax incentives of up to \$825,000 through the Kentucky Business Investment program. The performance-based incentive allows Alreco to keep a portion of its investment over the term of the agreement through corporate income tax credits and wage assessments by meeting job and investment targets.

The City of Russellville, Logan County and the Logan County Industrial Development Authority have approved a further \$250,000 infrastructure grant to Alreco. These funds will be paid against expenses incurred for development of site infrastructure including a rail spur, electrical transmission, water and gas lines and site preparation works up to the agreed \$250,000 cap.

#### *Contract Negotiations*

Contract negotiations continue to progress in the United States, as MHM Metals Corp works 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 the plant construction and commissioning. A number of companies have expressed keen interest in supporting MHM's initiative however due to the nature of their operations do not wish to commit contracts until the plant is operational. Given a cost competitive alternative to landfill, MHM can see no reason why any company would not choose the more environmentally responsible alternative of salt slag and black dross recycling.

#### *US Income Projections*

MHM will provide financial projections for the US operations in due course. While internal financial models have been generated, these cannot be provided as they may lead to revealing the underlying contract counterparties. Any identification of the contractual counterparties introduces short-term operational risks for these counterparties. Financial forecasts will be disclosed following additional supply contracts.

#### *Salt slag landfills / stockpiles*

MHM continues to assess landfilled/stockpiled salt slag that may present opportunities for recycling, with ongoing discussions to assess viability.

#### *Project Finance*

Management continues to assess project-financing alternatives and believes a number of options will be available. As always, management will have utmost regard for minimisation of shareholder dilution as we work to maximise Earnings Per Share and in turn the share price. The timeframe for completion of project financing will follow finalisation of plant design, costing and scheduling which is expected to conclude over coming months.

#### *Investor Roadshow*

Management anticipates undertaking an Australian and international investor roadshow early in 2012 to inform and engage new investors with the MHM story and continue to support the share price wherever possible. A number of broking houses are expressing an interest in publishing research on MHM, which is also expected to be highly beneficial for the company.

## SILICA DIVISION UPDATE

MHM continues to make positive progress for the silica division, with an emphasis on obtaining supply contracts to underwrite the development of a Tasmanian silicon smelter. Additionally, considerable effort has been devoted to securing silica reserves that may help fast-track production and offtake and lower costs of production.

MHM continues to engage numerous expressions of interest for development of a silicon smelter in Tasmania. Work continues on site selection, power supply agreements and the supply of sufficient timber for production of charcoal needed for the process.

Should this smelter materialise it will be a very large undertaking for MHM, and considerable progress is being made concerning investigation of financial and corporate structures that maximise shareholder benefits. MHM is actively engaged with corporate advisers in this regard.

## EXPLORATION UPDATE

The Board of Directors has made a strategic decision to discontinue any further exploration activity, and is actively seeking divestment opportunities for exploration projects. This is a key decision for MHM, signifying an absolute move out of mineral exploration. This does not include the silica assets, which continue to be retained but do not require any significant exploration or development at the present time. Future resource development for silica will be contracted out, and as detailed above management is undertaking analysis of the best corporate and financial structure for the silica division.

The board has given notice to the geological staff of the decision to cease all further exploration activity, and commenced a notice period for cessation of employment. The decision to discontinue all further activity in this regard will save MHM approximately \$300,000 per annum in salary payments alone. Management expresses sincere gratitude to the geological team and wishes them all the best for their future endeavours.

## FURTHER INFORMATION:

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