

# MHM UPDATE

ASX Release – 15 November 2012

## Summary

On 12 September 2012 MHM Metals Limited (ASX: MHM) requested a voluntary suspension of its ordinary shares under ASX Listing Rule 17.2, pending an announcement by the Company in relation to the outcome of a strategic review of the Company's operations. The suspension was requested to allow the Company to provide shareholders with a clear outline and timetable for future operations and activities.

The strategic review has been completed and outcomes are summarised in this announcement. MHM will recommence trading at opening of the market on Friday 16 November 2012.

The review covered all elements of the Company's business and activities. A new Board has been put in place and the Directors are focussing on the core business, putting this back on track before looking at expansion options. Significant management changes have been made to again concentrate attention on the aluminium waste processing business and specifically the Moolap plant operations. MHM will close its Hobart office and its registered office will move to Moolap. This results in considerable cost and overhead savings.

Independent engineering, operational and OHS reviews were carried out on the plant and these have resulted in detailed action plans moving forward. The plant continued to operate throughout the review period.

A full review of all agreements, including technology and tolling agreements, was conducted and negotiations are currently underway in an attempt to obtain unrestricted access by MHM to all technology and to have all agreements with customers held and owned directly by MHM going forward. Alcoa have been actively engaged and very supportive throughout the last couple of months, and the Company is in regular dialogue with them over the future plans and targets.

No further action has been taken during the review period on the US expansion, other than to keep customers, potential customers and other stakeholders informed on progress.

## Corporate

During October Paul Lappin and Lyn Brazil joined the MHM Board. Paul was elected Chairman. Basil Conti, Ben Mead and Simon Wells resigned as Directors. Ben remains employed by MHM in the US on a part-time basis to maintain the important relationships with customers and key stakeholders. Simon has relocated from Tasmania to Geelong to work as Business Development Manager. John Pugh, who was employed in the US to oversee operations in Kentucky, moved to Geelong at the beginning of October as operations Manager to take control of the Moolap Plant and all associated activities.

The Board agreed to close down the Hobart head office by the end of this year and move the registered office to Moolap. Hobart based staff will be departing the Company by December. This allows all activities to be run from one place and reduces costs and overheads.

Current cash position is around \$6million and the Board believes that this keeps the Company in a strong position for at least the next 12 months. MHM sees no reason at this time that any capital will need to be raised for the aluminium business until the US expansion proceeds.



**ASX Codes**  
MHM, MHMO  
**Issued Capital**  
130.2m Ordinary Shares

**Substantial Shareholders**  
Brazil Farming 8.3%  
Rogers Southern PL 8.1%

Directors 8%  
Top 20 38%

**Directors**  
Chairman - Paul Lappin  
Non-Exec Director – Lyn Brazil  
Managing Director/CEO - Phil Thick

**Contact:**  
72 – 80 Buckley Grove  
Moolap VIC 3224

T: +61 (0)3 52482002  
F: +61 (0)3 52483498  
W: [www.mhmmetals.com](http://www.mhmmetals.com)  
E: [info@mhmmetals.com](mailto:info@mhmmetals.com)

ABN: 41 124 212 175

## **Moolap Plant**

A number of independent reviews have been carried out over the past two months, including engineering and operating reviews and an OHS review. Two experienced engineers from Franklin Engineering in Tennessee, USA spent a week at the plant fully reviewing all processes. These engineers have been involved in the independent review of the Kentucky plant design, and the Company believed it was appropriate to involve them in the review process both for their valuable input for Moolap and to build on their work for the US plant.

The feedback from all parties confirmed the Company's views and concerns around poor planning, inadequate measurement and testing, lack of preventative maintenance, continuous breakdowns and lack of spares, and some inappropriate equipment for the harsh operating environment. Accepting that the plant has been retrofitted into a less than ideal layout and area, there was still substantial room for improvement. A detailed OHS action plan has been put in place to address the identified risks and hazards and the Board sees the delivery against this plan as being # 1 priority for all management and staff. Preventative maintenance plans and procurement of critical spares are underway.

Over the past eight weeks the Moolap plant has continued to operate with weekly processing of 3-400t of material, and is still only making limited progress on reducing stockpiles. The plant is designed to process 12t per hour and in the past this has been extrapolated to a design capacity of 1200t per week based on 100 hours of running per week. It became clear some months ago, and has been confirmed through the review process, that 12t per hour is indeed achievable but continuous running at these levels, as has been done a number of times since August, results in bottlenecks that stop the process. Specifically the inability to handle the fines produced in such larger quantities causes the clarifier, filters and dryer to overload. This fine material forms the large part of the NMP (Non-Metallic Product) by-product. At these throughput rates fines have to be stockpiled and dried and reprocessed, which is both inefficient and costly.

As a result of this the plant has been run over recent weeks at 6t per hour to reduce these problems, and there have also been many tests done on different mixes of input product and with various items of plant equipment operated differently to try to maximise future throughput rates.

A lot of work has been done on sizing, scoping and testing the requirements for a new filter press. This is an expensive item and there were multiple options reviewed, some with very long lead times (up to 12 months) and some with short lead times but limited capacity. It is critical that the new filter press is adequately sized for maximum throughput and capable of handling the Moolap material. A new filter press has been ordered from Europe and will be delivered in January for installation and commissioning by February. The plant will continue to operate throughout the installation period. The cost of this equipment will be around \$450,000, plus delivery and installation cost which is still being progressed. This is the largest press that was considered and should give the capacity required to handle full processing tonnages. The operation of the press is expected to allow continuing operation at 12t per hour. It is expected that there will be some upgrade requirements for the dryer, as this will be required to handle about four times the current throughputs. This review and upgrade is currently being worked in parallel with the filter press procurement and installation.

In summary, current tonnages are expected to increase between now and January with 600t per week being the target, and then following the installation of the new filter press throughputs are expected to rise to consistently about 1000t per week. This should see stockpiles fully processed by around September/October next year.

Sale of NMP (AL80) continues to be work in progress. A couple of potential customers have rejected material due to differences between samples of the product. The stock of AL80 at the Moolap plant has had limited testing in the past and has been variable in some properties. An extensive testing program has been implemented to assay existing stock and properly test AL80 being produced now. That program is currently underway. A large number of samples have been sent to customers and a major customer has tested and accepted the quality of the samples and is about to be supplied with 120t for bulk testing. A number of other potential customers are also testing the product. Small quantities are being sold within Australia for use as abrasives. MHM remains confident it will secure long term offtake for all of its AL80 production.

## **Profitability**

Current monthly income averages \$300,000 from Alcoa and Sims. This is the tolling fee for every tonne that comes into the plant. Aluminium metal is returned to Alcoa and Sims at no cost. The income at this time does not vary depending on processed tonnages as it is wholly based on received tonnes. Other future income will be from sale of AL80 and salt. The Company is working to keep the base plant costs of production below the average monthly income to keep the plant "cash positive". All costs, overheads, shifts and staffing are under review to minimise the operating costs. However there are still additional costs associated with the current installation of holding ponds, the further upgrading of the plant (including the new filter press) and future salt ponds that will not be covered by existing income. At this time given the number of unknowns and variables it is not possible to give firm profit guidance.

Mining and processing of the Alcoa landfill has been put on hold until the stockpiles are substantially reduced or eliminated. It is imperative that the 25,000t of unprocessed and partly processed material stored at the Moolap plant and on the Alcoa landfill site be processed and cleared as quickly as possible, along with current incoming material. This must be done before moving to the processing of additional material from the landfill, even though the profitability of that processing, given that MHM retains for sale the recovered aluminium metal, is potentially much higher.

### **Commercial Agreements**

The current Alcoa tolling agreement is with Project Development Corporation Pty Ltd . That agreement expires at the end of this year. MHM is in negotiation with Alcoa to enter into a new agreement directly with MHM when that agreement expires. Alcoa has been strongly supportive throughout the review process and MHM continues to work very openly and co-operatively with them to achieve the right outcomes for the future. It is expected that MHM will also negotiate a contract for direct access to the landfill in the future (the current agreement expires in 2013).

The nature of the existing tolling agreements is that income is received when salt slag or dross is received and not when the material is processed. As a result of this there is now a legacy issue of 25,000t of stockpiled material that has been paid for and still has to be processed. MHM is in negotiations with Frank Rogers and his partners to address this issue.

There are also technology agreements between MHM/Alreco and Frank Rogers and his partners and the Company is in negotiation with the other parties in an attempt to obtain full rights and ownership by MHM of the technology going forward.

### **US Expansion**

MHM still believes it is imperative to focus on, and deliver, consistent, sustainable and cost efficient processing at the Moolap Plant prior to further discussions around the funding and construction of the new plant planned for Kentucky, US. Contracted customers, potential other customers and key stakeholders in the US are being kept fully informed of progress. Discussions with potential investors and funders have been put on hold at this time. It is planned to re-start that process before the middle of next year subject to delivery of the plan and targets for Moolap. MHM then expects to be in a position where the performance of the Moolap plant and the technology on which the US design is based will provide the necessary support for the funding of the new plant.

### **Silica**

Options for silica assets are still being progressed, including full divestment and independent financing for potential smelter projects. The Board wishes to focus the company's attention and available funding on the core aluminium waste business but will seek to recover any value from its previous mining activities.

### **FURTHER INFORMATION:**

Rudi Michelson  
Monsoon Communications  
+61 (0)3 9620 3333