

MHM Metals Limited (ASX: MHM)

COMPANY UPDATE

ASX Release – 18 March 2013

HIGHLIGHTS

- New twelve month agreement signed with Alcoa commencing 1 April 2013
- Sales of Non Metallic Product (NMP) commenced
- Order for new filter press confirmed with delivery expected Q2 2013

Customer Contracts

MHM's wholly owned subsidiary Alreco Pty Ltd, which operates the Moolap aluminium waste treatment facility, has been running at a large net operating loss over the past three years. This takes into account the cost of processing material for which income has been received but which was not processed.

Over the past six months MHM has been working to improve processing throughput, increase efficiency and cut costs, with considerable success to date. However the operations remain cash negative so MHM has been in negotiation with its customers to increase processing fees to address this situation.

MHM has signed a new agreement for 12 months with Alcoa that significantly increases income to put the Alreco and the Moolap plant in a cash positive position for the coming year. The new contract includes a tolling fee for new material received, new incentives for increased processing rates and for removal of stockpiled material from Alcoa's Moolap landfill site and includes three monthly reviews to ensure targets are being met.

The board greatly appreciates the substantial support and co-operation Alcoa has given throughout the past three months to reach an agreement that meets the needs of both parties.

Moolap Plant and NMP (AL80)

The Moolap plant has continued to operate at levels previously confirmed on a 5 day/2 shift basis, with weekends used for maintenance and operation of the small filter press. The operational processes have been refined and are resulting in a more consistent end product and improved plant reliability. Issues with fines are still restricting efficiency and capacity and this is being addressed. Both operating costs and overheads have been greatly reduced, but the flowthrough effect of these usually lags and these are just starting to be realised.

MHM can confirm that in the past month major steps forward have been taken in the options for sale and/or disposal of non-metallic product (NMP or AL80). Again Alcoa has been heavily involved and its contribution has been very valuable.

MHM has made a number of sales within Australia for use in the industrial and refractory sectors. These are small volumes initially but results have been very positive and potential for expansion is excellent. Further product has also been supplied for larger volumes for other uses both within Australia and overseas and we expect orders to follow.

Most recently MHM gained independent confirmation that the NMP produced at Moolap can be classified as a non-hazardous industrial waste. This opens up many other opportunities for disposal, either in its own right or by blending with other materials. A number of these options are being actively assessed as short term solutions to clear stockpiles if cost neutral or longer term solutions if income generating.

Filter Press

As previously advised MHM placed an order last year for a new filter press for the Moolap plant. This unit was ordered from Belgium where it had been installed but never used. The unit is a high capacity, fully automated unit that has capacity in excess of that needed for the current Moolap operations but was purchased at a price substantially cheaper than a number of smaller new presses on offer in various locations. It was strongly recommended compared with other options identified by MHM's engineers. The press was dismantled and crated up for export. In January MHM agreed with the vendor to postpone the shipment (at no additional cost to the \$100,000 deposit paid) pending the outcome of negotiations with Alcoa to deliver a longer term contract and a solution to the disposal of NMP. It was MHM's view that this large capital investment should not be locked in until there was more certainty on these two matters.

MHM confirms, based on signing the new Alcoa agreement and the progress on NMP as described above, the contract for the new filter press has been confirmed with plans in place for immediate shipping. Total cost is approximately \$550,000 for the purchase, shipping and insurance with delivery in 6-8 weeks. Civil works will be carried out on site during this delivery period so installation can commence immediately upon receipt. Work to date has confirmed that installation can be completed for much less than previously budgeted. The new filter press, once installed, will reduce costs and will allow for increased throughput capacity at the plant that will allow stockpiles to be more quickly reduced and maximise potential income.

Technology Update

In December 2012 MHM and Alreco put a proposed settlement offer to Frank Rogers and his partners (both the operating Joint Venture and the technology owners). This offer required all agreements between the parties to be terminated and the global ownership of the technology to be transferred to MHM. In return for this MHM would take ownership and responsibility for all stockpiled material. The parties agreed to provide mutual releases from all claims related to the agreements. There was no monetary consideration to be paid or received for this settlement. This offer was accepted by all parties in December subject to suitable deed of release being agreed and executed.

When the deed of release was drawn up and circulated in January, Mr Rogers and the other directors of both the operating Joint Venture and the technology owners sought individual releases from MHM/Alreco. In the settlement offer made in December MHM/Alreco offered releases to the companies but did not offer personal releases to the directors of those companies. MHM/Alreco are not willing to give a personal release to Mr Rogers as he is the former Managing Director of MHM. This impasse has prevented the proposed deed of release from being executed.

MHM is currently taking advice and considering its options in relation to this development. MHM does not believe that the failure to execute this deed of release will have a materially negative impact on its ability to conduct its operations going forward.

Staff Changes

As previously announced on 15 February, Robert McAlister has commenced with MHM and will take over from Phil Thick as CEO at the end of March. Robert has been working at the Moolap plant in charge of all operations for four weeks and his presence there on the ground full time has already had a large impact on progress with the plant and NMP options. Phil will remain on the MHM board as a non-executive director.

Robert's arrival has allowed John Pugh to return to the United States last month where he will continue to represent MHM in the US in a reduced capacity, with a focus on maintaining relationships with key stakeholders, particularly current and prospective customers, and to ensure upkeep of all matters relating to MHM's land and assets. John's new role allows Ben Mead to be released and he will cease employment with MHM in April 2013. Further this has allowed Simon Wells to finish his role at Moolap and Simon has returned to Tasmania and ceases employment with MHM at the end of this month.

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