



17 November 2006

### **Market Update**

#### **The Lead Acid Battery Recycling Project**

The Directors of Hydromet are very pleased to announce the successful commissioning of the Lead Acid Battery Recycling Plant at its Unanderra operations which commenced on 4 November 2006. We expect our first shipment of Lead product to our overseas smelter customer will take place before the month's end.

The initial feed rate of the plant will be 12,000 tonnes of used batteries per annum on a single shift basis with spare capacity to be comfortably extended to 30,000 tonnes per annum on a 3 shift 5 day week basis. We have initiated an application to the necessary regulatory authorities to increase our approved processing rate to 30,000 tonnes per annum.

We are extremely pleased with the performance of the plant to date and expect the project will make a significant contribution to the Group's revenue and profit going forward. Furthermore, if the recent increase in the price of lead metal is maintained, further enhancement of our profit performance can be expected.

As indicated previously we have an ongoing feed supply agreement with a major battery manufacturer and a recycler in Australia which will fulfil our feed requirements. We have accumulated a significant stockpile of feedstock which at today's lead price would generate revenue of \$2.5 to \$3 million over the next few months.

Our lead smelter customer has visited our Unanderra plant and is impressed with the facility, its capability and the quality of our product at this early stage of production.

Based on the forecast for the financial year ending 30<sup>th</sup> June 2007 we expect to generate total revenue of around \$8 million from the sale of lead products and plastics. We will also see cost benefits emerge from our Electric Arc Furnace (EAF) dust project as we commence to utilize waste acid from the battery plant to produce zinc sulphate replacing a significant quantity of the high cost acid currently used in the process. The battery recycling plant fits well into Hydromet's recycling loop.

The battery project represents a significant advancement in the implementation of sustainable long term business for the company. We have a short term vision to move into the next stage of smelting our lead products to produce lead metals and alloys along with lead chemicals. In this regard we have committed to undertake a feasibility study to evaluate the merits of this important next step. If successful we anticipate value added products from this important addition will be in production within the next two years.

### **The Electric Arc Furnace (EAF) Dust and Zinc Sulphate Projects**

On the EAF dust front, Onesteel have under the terms of our agreement directed dust from their Sydney steel mill to Zinifex Port Pirie lead zinc smelter from October 1<sup>st</sup>. The election to place the dust to Port Pirie was based on more favourable cost terms compared with Hydromet and covers approximately 7,000 tonnes per annum.

Over the 4 past years Hydromet has been treating EAF dust from all the 3 Australian sources, namely Onesteel, Smorgon Steel and Comsteel. at a combined rate of 14,000 tonnes per annum through our Unanderra facility. Of the three sources the most ideal and desirable feed for recycling and recovery of zinc as zinc sulphate has been Smorgon and Comsteel dusts. As a result of technical limitations and after extensive development and trial work conducted, at our Unanderra facility the Onesteel material was removed from the recovery process and was directly immobilised for safe landfill disposal. Both Smorgon and Comsteel material have been treated successfully to produce quality zinc sulphate, and sold into the fertiliser industry.

In August 2006 we achieved record zinc sulphate production with sales at attractive pricing following the impact of the high zinc metal price on zinc chemicals. Although the fertiliser market has been adversely affected by the crippling drought we are aggressively pursuing other industrial applications for the valuable zinc content of our zinc sulphate. These prospects include mining applications and as an alternative clean feed source for zinc electrowinning plants. Recent developments in these markets are very promising with decisions expected to be concluded before the end of December We expect to commence two plant trials for the mining application of our zinc sulphate over the next two months, both of which would require the production of over 4,000 tonnes per annum of product.

Onesteel's agreement with Zinifex will result in Hydromet continuing to process Smorgon dusts until December 2007 under our existing arrangement at the rate of 7,000 tonnes per annum. In addition we will treat a further 625 tonnes per month (7,500 tonnes per annum) while negotiations continue on this uncommitted volume. Negotiations are expected to be finalised by the end of December. The 7,500 tonnes contracted tonnes of Smorgon dust to be treated over the next 13 months contains an intrinsic and recoverable zinc sulphate and treatment fees value of approximately \$8 million based on today's zinc metal price. We intend to capitalize on the zinc price opportunity for the benefit of both Hydromet and Smorgon Steel. Recent process enhancements will also result in substantial process cost improvements and a significant reduction in the final treated dust quantities disposed to landfill.

Hydromet's objective in this broader strategy is to maximise zinc recycling, minimise disposal of the EAF dust and improve costs and returns for both parties.

### **The Selenium Project**

With the Selenium price remaining stable since August and improved payment terms negotiated with our feed supply clients we are confident that the Newcastle based selenium project will continue to make a significant positive contribution to the Group's profits in the coming years.

Hydromet will begin processing a precious metals/selenium parcel from our US based client in December/January under terms where we have purchased the precious metal content and negotiated improved payment terms for the selenium. The precious metal will be sold to a European refiner. The transaction, the first of three parcels to be made available to Hydromet will increase selenium production and reinforce our strategy to strengthen our position in the world selenium supply/selenium chemical production markets.

Two other prospective precious metal/selenium residue clients have confirmed their decision to send material to Hydromet for processing after successful trials conducted earlier this year. Although the selenium content of these materials is less than other generators, selenium recovered from the treatment process will be at no cost to Hydromet and will supplement our other selenium sources.

**The Stanton project.**

Hydromet has concluded the sale of an option over its Stanton cobalt project to a Company contemplating listing in the near future. The terms are favourable to Hydromet and involve both a series of option payments and a commitment to spend substantial sums on field work on the tenements during the course of the option. On exercise Hydromet would receive both cash and shares as consideration. It is also contemplated that Hydromet would have a preferential off – take agreement with the would be purchaser when and if they were to go into production of cobalt concentrate.

In summary, strong world metal prices are benefiting our selenium, zinc and most significantly the new lead recycling project with indications of continuing favourable pricing capable of delivering profits in excess of our expectations for the 2007 financial year. The battery recycling project is now underway and we will optimize processing capacity in the June half of the financial year to capitalize on the lead market and spare capacity of the plant. Further expansion of the battery project to include increased throughput rates, smelting and chemical production will be evaluated in the second half of the financial year. We are optimistic and confident that the existing projects and prospects for increased activity will further reinforce the potential for Hydromet to become a globally recognized recycler and metal producer in a very specialized market segment.

A handwritten signature in black ink, appearing to read 'Gregory W Wrightson', with a long horizontal line extending from the end of the signature.

Gregory W Wrightson  
Managing Director