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15th March 2007.

Market Update – March 2007

Since Hydromet's previous Market Update in January 2007 the following developments have taken place across the range of activities undertaken by the company.

- The EAF dust/Zinc Sulphate project at Unanderra is operating at forecast expectations. In addition to our traditional Zinc Sulphate Heptahydrate product stream we have commenced trial production of Zinc Sulphate Monohydrate powder, a more concentrated Zinc product to access a wider mining/industrial application.
- The Lead Acid battery recycling project has progressed from the commissioning phase to the continuous operational stage with teething issues addressed along the way and operator training now reaching normal operating expectations. As reported earlier we have taken steps to increase our plant processing approval from 12,000 tonnes per annum to 30,000 tonnes and commenced evaluation and a feasibility study to build a secondary lead smelter to produce lead metal and lead alloys from the lead extracted from used batteries.
- In regard to our negotiations with the offshore Selenium business acquisition prospect we have made a preliminary offer to the parties concerned. At this stage their expectation is considerably higher than Hydromet's offer. Regardless of the outcome we plan to expand our selenium business to capitalise on our established position in the global market.
- The Selenium business remains strong with our strategy to secure additional feed for our Newcastle plant progressing and promising.
- Continuing and improving profitability is expected as we progress through 2007 and beyond.

The EAF dust project (Unanderra NSW)

The project remains a strong contributor to our operations. We are currently processing around 1,200 tonnes per month of EAF dust and producing 100 tonnes per month of Zinc Sulphate produced from the dust.

A trial parcel of Zinc Sulphate Monohydrate, suitable for wider application will be produced in March for test work by a major consumer. The parcel will also assist in scoping the appropriate equipment and scale to produce up to 4,000 tonnes per annum of the widely used agricultural, animal feed and mining chemical.

With positive results expected from the trial we intend to negotiate a long term agreement with the EAF dust generator which will be beneficial to both parties.

The Lead Acid Battery Recycling Project (Unanderra NSW)

The project has entered normal operating status with target daily throughput rates proven in February and forecast productivity expected to be achieved from March.

Process familiarisation continued in February with modifications implemented to meet our specific requirements. We expect these modifications to continue as we improve the operation and optimise the process.

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The strong Lead price has been of benefit Hydromet. Our entry to the market has also influenced used battery collections and pricing as we predicted.

Along with our supply agreement with for used batteries from Exide Technologies we have initiated discussions with other used battery collectors to ensure productivity targets and plant feed rates are met.

The Selenium Project (Newcastle NSW)

The Selenium business has remained stable during the financial year to date. Recent market indicators suggest a shortage of selenium over the coming months, with medium term indications of a possible 10% increase in the benchmark price.

Our decision to purchase precious metal residues containing Selenium has three benefits ie acquisition of selenium under improved terms, recovery and sale of the precious metals and, security of long term consistent feed to expand our position in the market.

Offshore acquisition prospect

Negotiations stalled in early March after submission of our preliminary offer, an offer we believe to be fair and reasonable based on our assessment of the business, potential synergies with Hydromet and combined long term prospects. The comparative technical strengths of the two companies in the Selenium/Tellurium would be magnified with a successful merger. Any price above our preliminary offer could not be justified as we consider the equivalent investment in expansion of our existing selenium business at Minmet would be of greater benefit. If our efforts to acquire the offshore business are not successful we will proceed with our expansion objective as a matter of priority.

Increasing selenium activity at Minmet

Prior to our interest in the offshore Selenium producer the Board had recognised the importance of expanding our Selenium production capabilities. Evaluation of the capital cost required to lift our current production capacity to 10 to 12 tonnes of contained Selenium per month is underway. Our Newcastle site is ideally suited to upgrading with substantial undeveloped real estate available for expansion.

Hydromet's unique expertise in processing complex selenium/precious metal residues to produce high quality selenium is now well established and we believe we are in a strong position to access additional feed from USA, Canada, South Africa and Europe to support our growth objectives.

Production of Selenium chemicals and high purity 99.99% Selenium are also options to take advantage of premiums available from value adding the selenium we recover.

In Summary

With multiple revenue streams from treatment fees, zinc, lead, copper, selenium and plastic sales the Board is confident of continuing revenue and profit growth as we optimise processes, secure additional feed for our selenium business and pursue other longer term opportunities outlined above. Further project diversity is also under consideration. Our objective is to move from annual revenue of \$20 million to \$50 million plus over the next three years with solid profit expectations from the new and improved activities of the group.



Gregory W Wrightson
Managing Director