



A.B.N. 71 002 802 646

SHAREHOLDER NEWSLETTER
MAY 2003

Over the past two years the activities of Hydromet have gradually altered to take advantage of new demands in the environmental world and to maximise our future prospects by seeking larger and longer term contracts from major national and international companies.

This transition has not been without problems in both technology application and lead times required to close contracts. Consequently we have experienced a difficult year to date in the transition from a very successful year in 2001/02 to a period where we brought new projects on line. Directors are expecting this situation to continue until new projects commence from June – July 2003.

We have maintained or increased business with some of our larger clients such as Onesteel, Falconbridge and Pasminco and have recently engaged in successful negotiations with, Exide Technologies, Smorgon Steel, Kennecott Copper (Utah USA) and a major oil refiner. Other major projects are in discussion and shareholders will be informed as and when they develop.

Whilst the year has been less than satisfactory in terms of financial performance we have continued to develop new opportunities and with the successful implementation of these and other projects we will secure our future and minimise the impact from short term changes in operations.

The medium and long term outlook for Hydromet continues to improve. Our challenge and objective is to achieve solid stability to enable the company to profit from more lucrative waste recycling and treatment opportunities, which are slowly, but continually emerging from heightened environmental awareness and regulatory obligations. We have achieved many of our objectives and believe that this will reflect beneficially in the figures for the coming year.

Existing and prospective businesses are summarised as follows :

EXISTING ACTIVITIES.

Hydromet's predominant business activities carried out since July 2002 have continued to be :

- Commissioning and production of Zinc Sulphate from the Onesteel project at Unanderra.
- The Falconbridge precious metal upgrading business at Newcastle.
- Immobilisation of tin waste at Unanderra.
- Immobilisation of manganese waste at Hydromet's onsite plant at Pasminco in Hobart.
- Continuing pre testing of prospective projects for the group with a number of new projects about to commence.

The transition to the full scale Onesteel project took four months longer to complete than planned. The delay was the result of additional equipment required to upgrade the EAF dust prior to its entering the Zinc Sulphate production circuit of our new plant at Unanderra. A feature common to most residues recycled by Hydromet is that of inconsistency in composition. The residues will often exhibit varying levels of the targeted element required for production and this variability will result in our modifying either the recycling circuit or final product from the recycled waste feed. This involves fine-tuning of the recovery process and obviously adds time to the commissioning phase of the project. We are currently preparing to supply the winter Zinc Sulphate liquid market that services the cotton growing industry of Northern NSW and Southern Queensland. The fertiliser market generally has been impacted significantly by the drought and this has more recently resulted in pre existing stocks of fertiliser held by importers/traders being discounted to attract sales. This situation is expected to improve in the coming months.

In Newcastle the Falconbridge project has continued and is expected to do so until December 2003 when the stockpile of residue will be depleted. This project of upgrading the residue from Norway indicates the global nature of the demand for Hydromet's technical expertise. Further modification has been made to improve the precious metal grade and provide Falconbridge an improved return on previously valueless precious metals residues. The process modification has also resulted in Hydromet extracting Selenium for sale to overseas clients.

Hydromet has utilised its immobilisation technology at Unanderra to treat other hazardous wastes to enable their approved disposal to landfill. This offers a solution to clients with these often difficult waste streams.

In Tasmania we have continued to immobilise manganese residue for Pasminco. This project concluded in March 2003 and we are currently planning another immobilisation activity for the plant to treat mercury waste for safe disposal.

NEW ACTIVITIES.

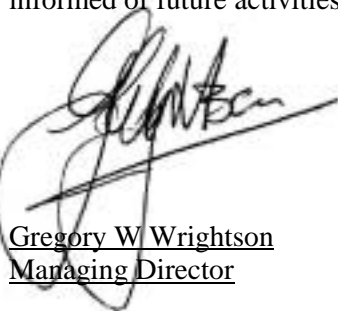
Hydromet has been actively involved in a number of prospective business opportunities expected to result in additional long term sustainable contributions and to alleviate the troughs often experienced during short term projects carried out within the group.

The board and management have focused on overcoming this inconsistency by identifying potential projects which also offer strong synergies and added value to existing activities.

Details of developments and additional business activities are as follows :

- In February 2003 Hydromet entered into a Deed of Agreement with a major oil refiner to complete a research and development project to process waste acid from the refinery to recover the acid for beneficial use in our Zinc Sulphate circuit. The process involves the removal of contaminants from the acid via technology developed by Hydromet, providing an environmentally friendly recycle route for the acid whilst ultimately reducing our cost of acid for Zinc Sulphate. A pilot scale plant is under construction at Unanderra to carry out this valuable work. The trial is expected to take 6 months to complete. We have begun to prepare a Statement of Environmental Effects to support our application to install a processing plant at the Unanderra site in anticipation of the possibility of a full scale process should the parties agree to proceed. A full scale operation would take a further 12 months to complete. Hydromet will be seeking a 5 + 5 year contract when plant trials and other conditions are completed to our client's satisfaction and the parties agree to proceed with the project.

- An application for AusIndustry research and development funding has been made to assist with development costs on the above project. If approved we could receive assistance of up to 50% of the research and development costs of this major prospect.
- Hydromet has entered into an agreement with Exide Technologies to immobilise 4,000 tonnes of lead slag at its Wellington New Zealand lead smelter. Hydromet will again use its immobilisation technology to solve a long standing hazardous waste disposal problem. The project is scheduled to commence in late July with completion by December 2003. It is expected that successful completion of the stockpile will lead to Hydromet providing ongoing treatment of the slag at the smelter.
- In addition Hydromet will commence to process EAF dust from Smorgon's Comsteel steel mill in Newcastle from June 2003. Zinc will be extracted from the dust to produce zinc sulphate as with the Onesteel project. We will process the dust for a period of six months with a view to ongoing treatment beyond the initial trial period.
- Work has commenced on an Environment Impact Statement (EIS) to cover the used lead acid battery crushing and recycling project previously outlined to shareholders, and to be located at Unanderra. The EIS will be lodged with Wollongong City Council along with our development application for this major project. Strong support has been received from Environment Australia for an alternative process to current offshore smelting for up to 12,000 tonnes of used batteries each year. This application timeframe is expected to take up to 12 months before a decision from council is received. Again waste acid from this recycle process would be recycled through our Zinc Sulphate circuit.
- Our Newcastle plant conducted a successful plant trial on a precious metal residue from Kennecott Copper (Utah USA) in February. We utilised proven technology applied on the Falconbridge project to upgrade the precious metal value and extract selenium from the residue. This project is now ongoing. Furthermore Hydromet has recently entered into an agreement with another Canadian base metal company to process a Tellurium/Precious Metal concentrate at our Minmet plant at Newcastle. This project is subject to trial. Clearly Hydromet's expertise in upgrading these previously worthless and complex concentrates has been recognised by other mining companies around the world who are seeking to recover the value tied up in these wastes.
- We are currently evaluating another hazardous waste requiring immobilising, which has emerged during a major industrial site cleanup. Further work will be conducted to define the specific treatment process before commercial negotiations on the project can proceed.
- There are a number of additional projects in early stages of discussion which, when confirmed, will add considerably to the company's revenue. We intend to keep shareholders informed of future activities by means of further newsletters.



Gregory W Wrightson
Managing Director

26th May 2003.