



A.B.N. 71 002 802 646

29 January 2007

Market Update – January 2007

Performance for half year to 31 December 2006

The Directors of Hydromet are pleased to announce that preliminary unaudited results for the six months to 31 December indicate a profit of \$330,000. We strongly believe the 2006/07 financial year will confirm the important sustainable and long term future of Hydromet. We expect significantly improved results in the June 07 half year, due to; a stable Selenium market, profitable EAF dust project, established zinc sulphate production and the successful commissioning of the lead acid battery recycling plant. With the continuing profit prospects the Board considers dividends will be declared in current and future financial years.

These achievements confirm the continuing emergence of certainty in Hydromet's business elements including :

- Proven capacity to produce market quality Zinc Sulphate from the EAF dust feeds supplied by Comsteel and Smorgon Steel.
- Improved zinc sulphate pricing on the back of the high zinc metal price have had a positive flow on affect on zinc chemicals.
- Continued improvement in Selenium production, attractive terms with residue suppliers and stability in the world price of selenium over the six month period. We expect the market price situation to remain the same through 2007.
- Introduction of the battery recycling project with a strong Lead price generating better than forecast revenue from the lead products produced from the recently commissioned Unanderra plant.

In addition to the above positive factors Hydromet is focused on establishing a new zinc sulphate market through the major mining and or zinc refining consumers. Our objective is to secure zinc sulphate customers who have annual requirements for up to 5,000 tonnes of zinc sulphate which is within our current plant capacity providing certainty and continuity of production across the year ie no seasonal cycles. .The strong zinc price has opened the door for zinc sulphate to be utilized in the refining process to produce zinc metal. An Australian refiner along with a number of offshore producers is considering our zinc sulphate for metal conversion. We anticipate a decision from these clients by the end of February. Successful

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placement of a significant quantity of zinc sulphate to any of the interested parties will underpin our goal of securing long term arrangements with EAF dust generators to support the zinc sulphate project.

The Lead Acid Battery Recycling Project

Commissioning commenced early November. Nine containers of lead product were shipped to our Thai customer in December. Process modifications have been introduced to fit our specific requirements and we have continued process familiarization and production in January. We expect steady state plant operations to be reached by end February.

The bullish world lead price has continued with pundits expecting the price to remain close to current levels through 2007.

We have commenced the regulatory application process to increase our plant processing limit from 12,000 tonnes to 30,000 tonnes per annum. The evaluation of a smelter plant option for the long term is also underway and we expect to be in a position to decide our preferred strategy during the March quarter.

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

The EAF dust/zinc sulphate project continues as previously advised. We are focused on the mining and zinc metal options for the zinc sulphate sales and anticipate results on these market prospects by the end of February 2007.

Process enhancements have been introduced to reduce residue disposal volumes and costs. These benefits will be realized when zinc sulphate production is maximized.

The Selenium Project

The Selenium business remains stable as noted above. We have processed other Selenium bearing residues to supplement our traditional feed sources and have purchased a precious metal/selenium parcel from Kennecott Copper in the US where payment terms have improved and the selenium content is more attractive compared to other sources.

We are conducting Due Diligence on an offshore Selenium chemical producer and residue processor with the view of substantially increasing our presence in the global market. The potential acquisition (brief outline below) is strategically significant and would place Hydromet in a very strong position in the Selenium industry.

Acquisition prospect.

We have entered into an MOU for the potential acquisition of a major offshore Selenium and Tellurium producer. The due diligence process has commenced and is expected to be completed by mid February. The business is of important strategic interest to Hydromet in extending our Selenium, Tellurium and related chemical business further. The party of interest is well known to Hydromet and has a long history of quality Selenium and Tellurium chemical production to customers around the world. Substantial synergistic benefits will be realised when combined with Hydromet's established and successful selenium residue upgrading process conducted at our Newcastle plant. The merging of the two companies would consolidate two prominent selenium product processors and result in combined productivity capability of in excess of 20% of world's selenium production. The potential acquisition brings together the significant individual technical strengths of the two companies creating an invaluable platform in continuing to build our selenium and tellurium expertise worldwide.

The due diligence process will be completed and offer made to the other party by 23 February. If successful we will seek HMC shareholders approval conclude this significant acquisition.

Appointment of Group General Manager.

The Board is pleased announce the appointment of a Group General Manager. The newly created position will encompass responsibility for the overall day to day management of Hydromet's various business activities across its operating facilities. The appointee has extensive minerals processing and refinery operations experience in Australia, the UK and South Africa. He most recently held the position of General Manager for a major smelting operation in Australia.

He will take up the position on 2nd April and in the interim period will familiarize himself with Hydromet's Unanderra and Newcastle operations and activities.

The appointment is an important addition to the management team bringing extensive operations experience to the company and will facilitate Dr Jayaweera and Greg Wrightson's shift in focus to business development and expansion.

A handwritten signature in black ink, appearing to read 'Gregory W Wrightson', with a long horizontal stroke extending to the right.

Gregory W Wrightson
Managing Director