



A.B.N. 71 002 802 646

2nd August 2007

The Manager
Company Announcements Office
Australian Securities Exchange
20 Bridge Street,
SYDNEY NSW 2000

Dear Sir or Madam,

HARD WORK PAYS OFF FOR HYDROMET

HydroMet's activities for the financial year 2007 have been extremely rewarding with significant contributions from our established and expanded Selenium/Precious Metals project at Newcastle and the recently commenced used lead acid battery (ULAB) recycling project at Unanderra.

Preliminary unaudited results for the year indicate a net profit before tax of \$2.2 Million on group revenue of \$19 Million.

Further forecast advancement of these projects in FY 2008 at indicative metal prices is expected to generate significantly greater group revenue and profitability.

We have been successful in securing long term Selenium/Precious Metals contracts for our Newcastle operations with a number of overseas clients in the United States, Canada, Europe and South Africa.

Our recent entry into the lead recycling field in Australia has been very successful with expectation of approval to increase throughput from the current 12,000 tonnes per annum of used batteries to 36,000 tonnes in the foreseeable future. With plans to enter secondary lead smelting operations by FY 2009 and basing metal pricing conservatively, revenue and profits could be further expanded to an estimated \$60 + Million with potential net pre tax profit of \$12 to \$15 Million.

Today, Hydromet is in a strong and stable position, deriving healthy sales revenues from a number of project streams including; Lead, Selenium, Tellurium, Precious Metals, Copper Sulphate, Zinc Sulphate and treatment fees earned along with consulting fees from services provided. Based on the current favourable economic conditions and future outlook, we anticipate continued growth and significant improvement in long term income streams.

With regard to the Electric Arc Furnace Dust (EAF) processing project, HydroMet has been advised by our customer Smorgon Steel that they have entered into an agreement to place their dust with a competitor at a treatment fee substantially lower than HydroMet is able to offer. Management seriously considered our treatment fee position but we believe it would be uneconomical and unsustainable to compete at the low level necessary to retain the contract. Hydromet however remains the only current processor extracting zinc with a proven commercially viable recycling process providing a complete closed loop technical, economic and environmental solution for other EAF dust generators around the world.

Lot 3, Five Islands Road, Unanderra NSW 2526 Australia
PO Box 42, Unanderra NSW 2526 Australia
Telephone: +61 2 4271 1822 Facsimile: +61 2 4271 6151
Website: www.hydromet.com.au email: office@hydromet.com.au

Planned zinc product development work will be completed including a Zinc metal electro winning trial which is about to be conducted at Unanderra. While Smorgon has taken an economic decision discussions are continuing aimed at retaining a link with the EAF dust to demonstrate the benefits of work in progress which we are convinced will be to the benefit of both parties

Given actual and expected performance from our core business elements we believe the decision will have a minimum impact on overall results going forward.

We will pursue other identified opportunities available for our Unanderra facilities capable of generating higher revenue and profit contribution than the EAF dust project including :

- Processing a new copper feed through the zinc plant to produce copper sulphate.
- Further upgrade our lead product stream from the battery recycling plant to produce better quality and cleaner feed to smelters
- Trial processing of alternative zinc feed to retain our established position in the Zinc Sulphate market.

We envisage a transition period to the above activities of 3 to 4 months.

The Board is confident that further strategic expansion of our core business activities with additional value added products including lead metals production through in house smelting and increased development of our Selenium based businesses HydroMet will continue to firmly establish sustainable long term growth in group revenues and profitability.

Yours sincerely

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

Gregory W Wrightson
Managing Director