

**HYDROMET
CORPORATION LIMITED**

A.B.N. 71 002 802 646

*Processing
for a
Cleaner
Environment*

ANNUAL REPORT

2011



Offices and officers

Principal registered office

Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822

Facsimile: 02 4271 6151

www.hydromet.com.au

Company Secretary

Mr Pipvide S Tang, MBA, CPA

Offices

Hydromet Corporation Limited

Hydromet Operations (Southern) Limited

Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822

Facsimile: 02 4271 6151

www.hydromet.com.au

Minmet Operations Pty Limited

25 School Drive
Tomago NSW 2322

Telephone: 02 4964 8266

Facsimile: 02 4966 5958

Location of share registry

Sydney

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000

Telephone: 1300 737 760

Facsimile: 02 9290 9655

www.boardroomlimited.com.au

Auditor

HLB Newhouse

Level 1

65 Kembla Street

Wollongong NSW 2500

Telephone: 02 4254 6500

Facsimile: 02 4226 2371

www.hlbnewhouse.com.au

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011**

| | <i>Page</i> |
|-----------------------------------------------------|-------------|
| Chairperson's report | 2 |
| Managing Director's report | 4 |
| Corporate governance statement | 5 |
| Directors' report | 15 |
| Auditor's independence declaration | 25 |
| Consolidated statement of comprehensive income | 26 |
| Consolidated statement of financial position | 27 |
| Consolidated statements of changes in equity | 28 |
| Consolidated statement of Cash flow | 29 |
| Notes to the financial statements | 30 |
| Note 1: Summary of Significant Accounting Policies | 30 |
| Note 2: Parent Information | 38 |
| Note 3: Revenue and Other Income | 39 |
| Note 4: Profit for the Year | 39 |
| Note 5: Income Tax Expense | 40 |
| Note 6: Interests of Key Management Personnel (KMP) | 41 |
| Note 7: Auditors' Remuneration | 43 |
| Note 8: Dividends | 43 |
| Note 9: Earnings per Share | 43 |
| Note 10: Cash and Cash Equivalents | 44 |
| Note 11: Trade and Other Receivables | 44 |
| Note 12: Inventories | 45 |
| Note 13: Derivatives | 45 |
| Note 14: Other Financial Assets | 46 |
| Note 15: Controlled Entities | 46 |
| Note 16: Property, Plant and Equipment | 48 |
| Note 17: Intangible Assets | 49 |
| Note 18: Other Non-current Assets | 50 |
| Note 19: Trade and Other Payables | 50 |
| Note 20: Borrowings | 51 |
| Note 21: Employee Benefits | 52 |
| Note 22: Tax | 53 |
| Note 23: Provisions | 54 |
| Note 24: Issued Capital | 55 |
| Note 25: Capital and Leasing Commitments | 56 |
| Note 26: Contingent Liabilities | 56 |
| Note 27: Operating Segments | 57 |
| Note 28: Cash Flow Information | 60 |
| Note 29: Share-based Payments | 61 |
| Note 30: Events After the Reporting Period | 61 |
| Note 31: Related Party Transactions | 62 |
| Note 32: Financial Risk Management | 62 |
| Note 33: Reserves | 65 |
| Note 34: Company Details | 66 |
| Directors' declaration | 67 |
| Independent auditor's report to the members | 68 |
| Additional information for listed public companies | 70 |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CHAIRPERSON'S REPORT

On behalf of the Directors of Hydromet Corporation Ltd, I am pleased to announce a profit before tax of \$3.6 million for the financial year 2011. The profit was achieved from total group revenue of \$68.7 million, a remarkable improvement compared to the previous year both in terms of revenue and profit.

The Board is also pleased to declare a final fully franked dividend of 0.1 cents per share, bringing total dividends for the full year to 0.175 cents, a 75% increase on 2010.

Achievements in the Year

The profit result was primarily attributed to improvements in all aspects of our operations including; plant performance, productivity, feed sourcing and end product marketing along with strong commodity prices particularly during the second half of the financial year. Although the strong Australian dollar was an undesirable factor affecting our business towards the later part of the year, we were able to weather this negative impact.

A comprehensive report on the operations for the year is detailed in the review of operations.

We have significantly improved our working capital position and the net asset backing along with a low gearing ratio of 26%. We are also proud to say that with regard to the company's historical growth, our revenue base and the profits over the years have been achieved through our innovative and creative application via organic growth.

Future Growth Strategy via New Project Development and Potential Acquisitions

Having achieved a successful and a sustainable business in the lead and selenium fields, we are exploring the potential to diversify our growth plan via synergistic acquisitions in addition to our usual method of projects development which normally involves longer lead time frames. We believe that the Company is in a much stronger position today to undertake the challenges to increase shareholder value faster but with caution.

In regard to potential acquisition prospects, management is currently in discussion with interested parties who, we believe, can offer us complementary business opportunities and add significant value to future growth. Shareholders will be kept informed of any definitive developments as they emerge.

We are also in the process of developing a new large scale residue treatment project with a smelter client, potentially leading to a longer term contract on a toll treatment basis. Subject to successful negotiation and conclusion in the next 2-3 months, we hope that the project can be brought into fruition at our Tomago site, by the end of 2012, bringing additional financial benefit to the group.

Our Future Lead Recycling Strategy

In regard to our strategy on battery processing, the Board believes that we have reached a level of maturity having achieved collection and processing of almost 30% of the ULAB market in Australia. We are also currently enjoying reasonably more attractive terms for our lead products sold to smelter customers both locally and overseas. Therefore the Board is cautiously reviewing our previously proposed smelter project at Tomago along with a number of other lower capital smelting options available to us from recent development approval gained for Unanderra. This will also assist us to define the most appropriate value added investment in our lead business.

We are currently conducting a pilot plant scale smelting trials at the Tomago facility on both CRT glass and lead oxide paste to prove the process and justify the economics. Based on the outcome, we will then consider the commercial installation of the furnace at our Unanderra facility. Availability of such a furnace to Hydromet will also facilitate other advantages and options, to process our lead oxide paste from the battery plant along with lead bearing residues such as CRT glass. At this stage we believe the process would be very attractive when taking into account treatment fees which could be earned from this new business unit. Expected capital investment is estimated to be about \$4 million and is within the company's financial capabilities.

Out Look for the Future

The Company expects strong revenues to continue in 2011/12. With the solid foundation already in place and with our vision for future growth, we are confident that the company will be able to move forward to consolidate our position further, diversify our activities and minimise our exposure to commodity driven business operations. While we are cautious about the potential effect from the most recent global financial turmoil we believe our Company is in a very stable position both financially and commercially to weather such an event.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CHAIRPERSON'S REPORT (Continued)**

Conclusion

I am very grateful to the staff and the management of the company for their valuable contribution and dedication to the growth of the Company. In this regard, I would also like to take this opportunity to especially thank our outgoing Managing Director, Mr. Gregory Wrightson, for his outstanding contribution over the last 18 years. Mr. Wrightson will be retiring in December this year. However, I am also pleased to announce that he has offered to continue on a consulting basis, assisting us in our ongoing activities. Over the years, Mr Wrightson's contribution and dedication has helped make Hydromet what it is today. On behalf of the Board I would like to thank Greg for his significant contribution to the success of the Company.

In regard to the task of fulfilling the Managing Director's role it is with great pleasure that I have offered to take on that additional role and the Board has given me the approval to do so. Needless to say, it is a privilege and an opportunity for me on behalf of the Company and I feel that I am well placed to serve in that role due to my past and continued experience as a part of Hydromet's team to achieve the goals which are already set in place.

Finally, I would like to thank our loyal shareholders for their continued support and look forward to a brighter year.



Dr Lakshman Jayaweera
Chairperson
25 August 2011

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES MANAGING DIRECTOR'S REPORT

The 2011 financial year has been particularly rewarding for Hydromet both in terms of the \$2.5 million profit after tax earned and the operating achievements realised during the period (please refer to the Review of Operations for a detailed explanation of our performance over the year). The result was achieved despite the consistent challenges faced with respect to fluctuating commodity prices and a historically high AUD appreciation during the year. Strategies adopted in 2010 proved beneficial in managing these critical influences even though they are predominantly outside our control.

Management's attention was directed towards improvements in productivity, operating cost reductions, improved sales terms and practical process enhancements across our lead and selenium/tellurium and precious metal based activities. We benefited from very strong selenium and tellurium pricing which remained relatively stable over the twelve months. Prices were also buoyed by increased demand for their use in solar cell technology which has experienced unprecedented growth worldwide over the past two years.

Our lead business, which in 2011 resulted in the processing of over 2 million used lead acid batteries has continued to mature with wider demand and customer portfolio both domestically and internationally. Again, modifications to the processing technology have delivered improved quality and lead content of our products sold during the year. This will remain an ongoing focus with further advances expected in these areas.

Dr Jayaweera has outlined the Board's ongoing lead strategy in the Chairperson's Report, in particular with reference to the product flexibility achievable under the plan. In adopting the initiative, Hydromet has the ability to produce existing lead metal and lead oxide streams along with bullion metal from either or both of our current product lines. We have the potential to earn additional value from metal produced from the other sources which will be compatible with the smelting equipment to be installed.

With respect to our product diversification objectives we continued to develop other lead based feed options recently by installing a small pilot scale rotary furnace to facilitate effective evaluation of these potentially valuable feed sources. Activity diversification is a major priority for the Board, particularly aimed at minimising our exposure to commodity based activities and building further sustainable profitability. With a firmly established metal based business Hydromet will move to the next important growth phase, capitalising on existing profitable activities and introducing new business through both organic growth and complementary acquisition objectives over the next two years.

After almost eighteen years with Hydromet, the past eleven as Managing Director I have decided to retire at the end of my current contractual period in December this year. It has been a privilege to be a part of the Hydromet story, experiencing the highs and lows of a true pioneer in the waste management/resource recovery industry in Australia. We have provided many innovative solutions to a range of industrial and mining companies over the years. At the same time we have organically grown our product revenues from a meagre \$5.3 million in 2000 to \$68.7 million in 2011. The goal now is to build revenues to \$100 million per annum and beyond along with sustainable commensurate profitability.

I am grateful to have been associated with many dedicated people I have had the pleasure of working with over the eighteen years and know that the solid platform we have established will go well towards achieving the ongoing objectives of senior management and the Board of Directors. I thank you all, past and present, for your friendship, assistance and support in our achievements.

I would like to take the opportunity to wish management, staff and the Board every success with the plans ahead. To my fellow Directors I thank you for your assistance and support and in particular wish Dr Jayaweera every success in his new role as Executive Chairman and CEO of the company. To shareholders, I thank you for your patience and support over the years also.

I will remain involved with Hydromet on a consulting basis in 2012 assisting in a supportive role with existing projects and those emerging during the year ahead.

Finally my sincere thanks go to my wife Deirdre for her enduring support and encouragement over the past eighteen years, often through demanding periods of Hydromet's evolution and business development.



Gregory W Wrightson
Managing Director
25 August 2011

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

This statement sets out the key corporate governance policies and procedures adopted by the board throughout the financial year. The board promotes a corporate governance framework that achieves the objectives of protecting and enhancing long-term shareholder value in the manner that is consistent with the Company's responsibility to meet its obligations to all stakeholders.

Due to the size of the Company, resources available and the specialised nature of the Company's business, the Company does not comply with a number of the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council. The extent to which the Company has followed each of the Recommendations in the reporting period is listed below.

Principle 1 – Lay Solid Foundations for Management and Oversight

Recommendation 1.1 – Companies should establish the functions reserved to the board and those delegated to senior executive and disclose those functions.

The board is responsible for the overall corporate governance of the Group including:

- formulating its strategic direction;
- approving and monitoring capital expenditure;
- setting remuneration, appointing, removing and creating succession policies for directors and senior executives;
- establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems; and
- responsible for approving and monitoring financial and other reporting.

The board has delegated the responsibility for the operation and administration of the Company to the executive chairperson, managing director and executive management. The functions that were delegated included establishing and implementing a risk management system, environmental control and compliance and occupational health and safety issues.

Although no documented charters have been adopted, the board has clearly communicated to the management their responsibilities and the responsibilities reserved for the board.

All executive directors have entered formal employment contracts with the Company. The contracts set out the key terms and conditions of their appointments which include their job description, term of office, duties, rights and responsibilities, and entitlements on termination.

All non-executive directors received no formal contracts upon their appointment.

Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives.

The board has delegated to the Audit and Remuneration Committee the responsibility for evaluating the performance of the board, individual directors and senior executives. The Committee reviews annually the effectiveness of the board, individual directors and senior executives.

As part of the induction procedures, all directors and senior executives are informed by the board on their appointment of the following matters:

- corporate expectation;
- term of appointment;
- time commitment envisaged;
- power and duties of directors and senior executives;
- any special duties or arrangements attaching to the position;
- expectations regarding involvement with committee work;
- remuneration, including superannuation, retirement benefit and expenses;
- requirement to disclose directors' and senior executives' interest and any matters which affect their independence;
- fellow directors and senior executives;
- trading policy governing dealings in company's securities;
- induction training and continuing education arrangements;
- board policy on access to independent professional advice;
- indemnity and insurance arrangements;
- confidentiality and rights of access to corporate information;
- a copy of the constitution; and
- organisational chart of management structure.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

Recommendation 1.3 – Companies should provide the information indicated in the Guide to reporting on Principal 1.

The Company complies with Recommendations 1.1, 1.2 and 1.3.

During the financial year, the committee conducted reviews of the performance of the board, the audit and remuneration committee, the directors and the senior executives in accordance with the criteria disclosed and the results were discussed at the board meeting.

The Company's Corporate Governance Statement is available at www.hydro-met.com.au.

Principle 2 – Structure the Board to Add Value

Recommendation 2.1 – A majority of the board should be independent directors.

The size and composition of the board is determined using the following principles:

- a minimum of five directors, with a broad range of expertise both nationally and internationally;
- a majority of directors have extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies;
- the directors (except for the managing director) are subject to re-election every three years;
- enough directors to serve on the audit and remuneration committee without overburdening the directors or making it difficult for them to fully discharge their responsibilities;
- the roles of chairperson and managing director are not exercised by the same director ; and
- the audit and remuneration committee is comprised of non-executive directors.

Each director, subject to prior consultation with the chairperson, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an advisor suitably qualified in the relevant field and obtain the chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another Group member;
- is not a material* supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer;
- has no material* contractual relationship with the Company or another Group member other than as a director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the director's ability to act in the best interests of the Company.

* *The board considers, 'material', in this context, to be where any director-related business relationship has represented, or is likely in future to represent the lesser of at least ten per cent of the relevant segment's or the director-related business's revenue. The board considered the nature of the relevant industries' competition and the size and nature of each director-related business relationship, in arriving at this threshold.*

Due to the size and specialised nature of the Company's business, the board comprises two independent non-executive directors, one non-executive director and three executive directors.

Recommendation 2.2 – The chair should be an independent director.

The chairperson is responsible for leadership of the board and for the efficient organisation and conduct of the board's functioning. Due to the technologically specialised nature of the Company's business, the chairperson is an executive director whom is equipped with highly technical knowledge and experience in the industry that the Company is operating. The chairperson is also a major shareholder of the Company.

The deputy chairperson is an independent non-executive director.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

Recommendation 2.3 – The roles of chair and chief executive officer should not be exercised by the same individual.

The Company has appointed a managing director whom is not the chairperson. The responsibilities of the chairperson and the managing director are delineated in their individual contract with the Company.

Recommendation 2.4 – The board should establish a nomination committee.

Due to the size of the Company and resources available, the mechanism for examination of the selection and appointment practices of the Company is delegated to the audit and remuneration committee. The audit and remuneration committee comprises two independent non-executive directors one of whom is appointed the chairperson of the committee.

The audit and remuneration committee oversees the appointment and induction process for directors and committee members and the selection, appointment and succession planning process of the Company's managing director. The committee makes recommendations to the board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the committee in consultation with the board determines the selection criteria based on the skills deemed necessary. The committee identifies potential candidates. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders. The policy for nomination and appointment of director is available to view at the office of the company.

Recommendation 2.5 – Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Group has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Each director has the right of access to all relevant Company information and to the Company's executives. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The audit and remuneration committee review annually the effectiveness of the board, individual directors and senior executives. The other directors have an opportunity to contribute to the review process. The process consists of discussion between individual director, senior executive and the members of the audit and remuneration committee. The performance criteria takes into account each director's and executive's contribution to setting the direction, strategy and financial objectives of the Group and monitoring compliance with regulatory requirements and ethical standards.

The reviews generate recommendations to the board, which then votes on them. The committee's nomination of existing directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the board and the Company. Directors displaying unsatisfactory performance are required to retire.

Due to availability of resources, the finance director is appointed as the company secretary. All directors have access to the company secretary in supporting the effectiveness of the board. The company secretary is accountable to the board, through the chair, on all governance matters.

Recommendation 2.6 – Companies should provide the information indicated in the Guide to reporting on Principle 2.

During the financial year the committee has conducted reviews of the performance of the board, the audit and remuneration committee, the directors and the senior executives in accordance with the criteria disclosed and the results were discussed at the board meeting.

Due to the size of the Company, resources available and the technologically specialised nature of the Company's business, the Company did not meet Corporate Governance Council recommendations in the following areas:

- the board comprises three non-executive directors and three executive directors (Recommendation 2.1);
- an executive director is the chairperson (Recommendation 2.2); and
- the audit and remuneration committee is responsible for the functions of the nomination committee and consists of two independent non-executive directors as members (Recommendation 2.4).

The Company complies with Recommendation 2.3 and 2.5.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

Principle 3 – Promote Ethical and Responsible Decision-Making

Recommendation 3.1 – Companies should establish a code of conduct and disclose the code or a summary of the code.

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The board reviews the ethical standards policy regularly and processes are in place to promote and communicate these policies.

The Group has advised each director, manager and employee that they must comply with the ethical standards policy. The code of conduct is available to be viewed at the office of the Company and it covers the following:

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value and safety of goods produced;
- employment practices such as occupational health and safety, employment opportunities, community activities, sponsorships and donations;
- responsibilities to the individual, such as privacy, use of privileged or confidential information and conflict resolution;
- conflicts of interest;
- corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain;
- confidentiality of corporate information;
- fair dealing;
- protection and proper use of the Company's assets;
- compliance with law; and
- report unethical behaviour.

Written confirmation of compliance with policies in the Code of Conduct Manual is obtained from all operating units. Formal appraisals are conducted at least annually for all employees. Training and development, appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue between employees and senior management. A succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Recommendation 3.2 – Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The Company has established a policy concerning trading in Company's securities by directors, senior executives and other employees. The key elements of the policy are:

- All employees are prohibited from dealing with Hydromet's securities when they are in possession of price sensitive information relating to Hydromet's securities which has not been made public.
- Directors and Key Management Personnel (KMP) are prohibited from:
 - Short term trading of the Company's securities.
 - Entering into transactions that limit economic risks related to unvested share-based payments.
 - Trading of Company's securities during the Closed and Prohibited Period.
- Required to make notification of intention to trade and obtain written acknowledgement prior to dealing with Company's securities;
- To require details to be provided of the subsequent confirmation of the trade; and
- Circumstances that Directors and KMP may deal with Company's securities during a Prohibited Period..

The policy also details the insider trading provisions of the *Corporations Act 2001* and is available at the office of the Company.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

Recommendation 3.3 – Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Code of conduct is available to be viewed at the office of the Company. The policy concerning trading in Company's securities is available to be viewed at the Company's web site. The Company has complied with Recommendations 3.1, 3.2 and 3.3.

Principle 4 – Safeguard Integrity in Financial Reporting

Recommendation 4.1 – The board should establish an audit committee

The Company has a formal audit and remuneration committee. The responsibilities of the committee include:

- review of the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with *Australian Accounting Standards (AASBs)* and assessing whether the financial information is adequate for shareholder needs;
- assess corporate risk assessment processes;
- assess whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the audit or review;
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the *Corporations Act 2001*;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board;
- monitoring prompt and appropriate rectification of any deficiencies or breakdowns identified in the fraud control environment;
- monitoring the procedures to ensure compliance with the *Corporations Act 2001* and the ASX Listing Rules and all other regulatory requirements; and
- address any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Securities Exchange and financial institutions.

Recommendation 4.2 – Structure of the audit committee

All members of the audit committee must be non-executive directors with a majority being independent. The chairperson may not be the chairperson of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group, the remuneration of executives and directors and the composition of the board.

It is recommended that the committee consist of at least 3 members. Due to the limited number of local non-executive directors on the main board, the audit and remuneration committee consists of two members only.

The external auditors, the managing director and director of finance, are invited to audit and remuneration committee meetings at the discretion of the committee.

Recommendation 4.3 – The audit committee should have a formal charter

The audit and remuneration committee has a documented charter, approved by the board, which is available to be viewed at the office of the company.

To ensure the integrity of the Company's financial reports, the managing director and the director of finance are required to declare annually, in writing to the board, that the financial records of the Company for the respective financial year have been properly maintained, the Company's financial reports comply with accounting standards and present a true and fair view of the Company's financial condition and operational results.

To oversee the independence and function of the external auditors, the audit and remuneration committee met with the external auditors during the year without management being present.

The audit and remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors of the Company and of other executives for the Group. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

Recommendation 4.4 – Companies should provide the information indicated in the Guide to reporting on Principle 4

The members of the audit and remuneration committee during the year were:

- Mr TR Allen (Chairperson) – Independent Non-Executive; and
- Mr SH Kwan, MPhil - Independent Non-Executive.

The committee met twice during the year and the committee members' attendance record is disclosed in the annual report of the Company.

Due to the limited number of local non-executive directors on the main board, the audit and remuneration committee consist of two members only, thus the Company did not meet Corporate Governance Council recommendation 4.2. The Company complies with Recommendation 4.1, 4.3 and 4.4.

The audit and remuneration committee also reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings and to recommend board approval of these documents prior to announcement of results;
- review the draft annual and half-year financial report and recommend board approval of the financial report;
- review the results and findings of the audit, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made; and
- review rotation of external audit engagement partners.

Principle 5 – Make Timely and Balanced Disclosure

Recommendation 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

The board has a written Continuous Disclosure Policy which is designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. In summary, the policy operates as follows:

- The managing director and the director of finance, who also acts as the company secretary, are responsible for interpreting the Company's policy and where necessary informing the board;
- The director of finance is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered;
- The Board approves all major announcements to ASX and aims to keep shareholders and investment market informed of all major developments affecting its activities and state of affairs;
- All announcements made to the market and related information, including information provided to analysts or the media during briefings, are placed on the Company's website after they are released to the ASX;

Recommendation 5.2 – Companies should provide the information indicated in the Guide to reporting on Principle 5

The Continuous Disclosure Policy is available to be viewed at the office of the Company. The Company has complied with Recommendations 5.1 and 5.2.

Principle 6 – Respect the Rights of Shareholders

Recommendation 6.1 – Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

Under the Continuous Disclosure Policy, the board provides shareholders with information that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases. The Continuous Disclosure Policy operates on shareholder communication issue as follows:

- the full annual financial report is available to all shareholders;
- the half-year reviewed financial report contains summarised financial information and a review of the operations is lodged with the Australian Securities and Investments Commission, the ASX and then sent to any shareholder who requests it;
- proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders;

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

- the full texts of notices of meetings and associated explanatory material are placed on the Company's website; and
- the external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

The board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

Recommendation 6.2 – Companies should provide the information indicated in the Guide to reporting on Principle 6

The Continuous Disclosure Policy is available to be viewed at the office of the Company. The Company has complied with Recommendations 6.1 and 6.2.

Principle 7 – Recognise and Manage Risk

Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The board oversees the establishment, implementation and annual review of the Company's risk management system. The board reviews regularly the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the program.

Major risks arise from such matters as action by customers, competitors, government policy changes, environment, occupational health and safety, the impact of exchange rate and product price movements, difficulties in sourcing feed materials, and problems in the development of technical processes.

Quality and integrity of personnel

Written confirmation of compliance with policies in the Code of Conduct Manual is obtained from all operating units. Formal appraisals are conducted at least annually for all employees. Training and development, appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue between employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Financial reporting

The managing director and the director of finance have declared in writing to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Environmental regulation

The Group's operations are subject to licence requirements issued under the *Protection of the Environment Operations Act 1997* ('POEO Act') in relation to its business of processing industrial residues and manufacturing chemical products including treatment processes, immobilisation of by-products, disposal of effluent streams and transportation of materials that are subject to specific approvals from and close scrutiny by the Commonwealth and State Department of Environment and Conservation.

The Group is committed to achieving a high standard of environmental performance. Site managers are responsible for management and monitoring of compliance with the various licences, environmental regulations and specific requirements of site environmental licence conditions under which the facilities operate. There has been no material non-compliance in relation to these licences' requirements during the financial year.

Site managers report environmental performance to the Group managing director on a monthly basis who then reports to the board. Performance against the licence conditions are reported to the managing director, board of directors and various state regulators on an annual basis and were substantially achieved across all operations.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

The Company continuously reviews its existing environmental systems and procedures with the objective of upgrading these via the implementation of an environmental management system, which will integrate with the safety management system and will apply uniformly across the Group.

The *POEO Act* remains under review by the NSW Department of Environment and Conservation (DEC) which will lead to further changes to regulations and group a number of regulations under the one Act.

Hydromet is committed to seeking improvement in environmental management and awareness of its employees to ensure continuing compliance with its obligations.

Occupational health and safety

As with environmental matters, Hydromet is acutely conscious of its health and safety obligations to its workforce who, by the very nature of our industry, are exposed to a range of chemicals and hazardous materials in carrying out their work.

Occupational health and safety issues are governed by the *OHS Regulation 2001* in New South Wales and monitored by Workcover Authority.

Continuing advancement has been made with the integrated safety management system during the financial year. Training of managers and operations personnel is a continuous process to ensure a duty of care philosophy is adopted across the Group.

Ethical standards

It states in the Quality Policy Statement that our business ethics will be conducted to the highest standards embracing fairness, honesty, integrity, loyalty and trust. All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The board reviews the Quality Policy Statement regularly and processes are in place to promote and communicate these policies.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and the Group are set out in the financial statements.

Recommendation 7.2 – The board should require management to design and implement the risk management and internal control system to manage the company’s material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company’s management of its material business risks

Due to the limited number of board members, the Company does not have an internal audit function or a risk management committee. The board members, management and senior executives are responsible for the overall internal control framework, but recognise that no cost-effective internal control system will preclude all errors and irregularities. The management has established and implemented the risk management system for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group. The system is based upon written procedures, policies and guidelines, organisational structures that provide an appropriate division of responsibility and the careful selection and training of qualified personnel. It comprises the Company’s internal compliance and control systems, including:

- Operating unit control – Operating units confirm compliance with financial controls and procedures;
- Functional speciality reporting – Key areas subject to regular reporting to the board include environmental, legal and occupation health and safety matters; and
- Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

In this regard, the Company has an Environmental Policy Statement, Occupational Health and Safety Policy Statement and Quality Policy Statement which set out the standards in accordance with which each director, officer and employee of the Company is expected to act. The requirement to comply with these policies is communicated to all employees. The statements are available at the office of the Company.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval;
- financial exposures are controlled, including the use of derivatives. Further details of the Company's policies relating to metal price hedging and forward exchange rate management are included in the financial statements;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- environmental regulation compliance (see below).

Recommendation 7.3 – The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

The managing director and the director of finance have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Group.

Recommendation 7.4 – Companies should provide the information indicated in the Guide to reporting on Principle 7

The Company has complied with Recommendations 7.1, 7.3 and 7.4.

Due to the size of the Company, its board of directors and resources available, the Company has not established an internal audit function and a risk management committee, thus the Company did not meet Corporate Governance Council recommendation 7.2. The Company is achieving the same outcome by a carefully designed division of duty and a check and balance mechanism within the organisation. The responsibility for risk oversight and risk management rests with the full board and forms part of its regular agenda at its meetings.

Principle 8 – Remunerate Fairly and Responsibly

Recommendation 8.1 – The board should establish a remuneration committee

The audit and remuneration committee has a documented charter, approved by the board, which is available to be viewed at the office of the company.

The audit and remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors of the Company and of other Group executives for the Group. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. The structure of directors' and senior executives' remuneration and their retirement benefits are set out in the Remuneration Report section of this Annual Report.

Recommendation 8.2 – The structure of the remuneration committee

All members of the audit and remuneration committee must be non-executive directors with a majority being independent. The chairperson may not be the chairperson of the committee. The committee has at least three members.

The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group, the remuneration of executives and directors and the composition of the board. Please refer to Recommendations 4.2, 4.3 and 4.4 regarding the structure and functions of the audit and remuneration committee.

Recommendation 8.3 – Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

The remuneration package of executive directors and senior executives involve a balance between fixed compensation, long-term incentive and post employment benefit.

Non-executive directors receive a fixed fee not exceeding an aggregated amount approved by shareholders. In addition, they also receive a post employment benefit. Other than share options issued under an Executive Option Scheme approved by the shareholders, non-executive directors receive no performance related remuneration.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

Recommendation 8.4 – Companies should provide the information indicated in the Guide to reporting on Principle 8

The members of the audit and remuneration committee are listed in Recommendation 4.4. Their attendance at meetings is listed in the annual report of the Company.

All directors, including non-executive directors are also entitled to receive a post-employment cash benefit at the date of their retirement as director of the Company. The benefit is calculated as \$15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the *Corporations Act 2001*.

Under the terms of the Trading in General Company Securities by Directors Policy, directors and executives are prohibited from entering into transactions that limit economic risks related to unvested share-based payments and that the Company requires annual declarations of compliance with this particular policy.

Due to the limited number of local non-executive directors on the main board, the audit and remuneration committee consist of two members only, thus the Company did not meet Corporate Governance Council recommendation 8.2. The Company complies with Recommendation 8.1, 8.3 and 8.4.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES DIRECTORS' REPORT

Your directors present their report together with the financial statements of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2011.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated Group during the financial year were:

- the processing of used lead acid batteries (motor vehicle batteries) to recover lead metal and oxide as feed material for secondary lead smelters; and
- the processing of industrial residues and the manufacture of value-added chemical products therefrom.

There were no significant changes in the nature of the consolidated Group's principal activities during the financial year.

Operating Result and Review of Operations for the Year

Operating Results

The consolidated profit of the Group amounted to \$2,485,000, net of tax (2010: loss \$376,000). The total comprehensive income of the Group amounted to \$2,418,000 (2010: \$2,181,000). The results represented an outstanding improvement in operations with revenue increased by 59% and after tax total comprehensive income increased by 11%. The significant improvement was largely attributed to increased productivity and sales from all activities. This result was achieved despite commodity price volatility and the strong Australian dollar (AUD) which also placed considerable pressure on the Group's results. Further discussion on the Group's operations follows.

Review of Operations

The group result for 2011 represents a significant improvement compared to 2010 with very positive contributions from our used lead acid batteries recycling and residue treatment (selenium, tellurium and precious metals) based activities. Our objectives to maximise productivity from the selenium, tellurium and precious metals business and continuing development of our lead recovery business proved successful during the financial year.

Although our markets were subjected to commodity movements we did see more stable conditions over the year with demand remaining high across our product range.

Selenium and tellurium pricing reached record levels in the second half of the year as demand in China escalated.

Cost of used lead acid batteries (ULAB) increased as a percentage of the London Metal Exchange (LME) lead price over the period as competition for the feed lifted and the collection market price expectations followed the lead price.

Record AUD exchange rate appreciation during the year had an adverse impact on our revenues but this was largely offset by stronger metal prices in the same period.

Used Lead Acid Battery Processing

- Hydromet's position in the battery collection/lead product recovery business has been further consolidated during FY2011 with strong battery collection, productivity, performance and increased customer base.
- The Unanderra plant processed 31,739 tonnes of ULAB's during the year to generate 23,800 tonnes of lead product containing 17,500 tonnes of lead.
- We recorded a new record month in August 2010 processing 3,624 tonnes of batteries.
- Our ULAB recycling process has been further modified and enhanced to generate higher quality products with increased lead content resulting in lower delivery cost per tonne of lead supplied.
- Our customer portfolio has expanded to include additional export clients along with customers within Australia and New Zealand.
- Cost of ULAB increased during 2011 due to competition among the three Australian processors along with the broad collector base seeking higher pricing as the LME lead price moved upwards during the year.
- With our firmly established ULAB collection network we were able to meet collection targets for the year and establish new customers.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES DIRECTORS' REPORT

Selenium, Tellurium and Precious Metals Recycling – Tomago NSW.

- The FY2011 saw record selenium output at Tomago producing 122 tonnes of high grade selenium valued at AUD13.4 Million.
- Output of precious metal product followed this trend with additional feed parcels processed during the year.
- Productivity improvements enabled us to generate an average of 10 tonnes of selenium per month resulting in lower conversion costs per tonne of product and greater plant efficiency.
- Significant cost savings were realised with the introduction of process and in house treatment advancements for bi-product waste streams.
- Our customer spread remained stable with established relationships proving beneficial for all parties.
- Discussions with feed suppliers continued with the view to increase feed for our facility including other tellurium bearing materials.
- Again the appreciating AUD impacted our revenue value, however we do have a natural hedge between the cost of our feed and product sales, which are both transacted in USD.

Secondary Lead Smelter Project

- With the smelter project investment valued at AUD13 million affected by fundraising constraints, management explored other less capital intensive lead metal production options in FY2011 as an adjunct to the smelter project.
- In May/June 2011 we received development approvals for two metal production activities for the Unanderra facility ie :
 - Two 40 tonne melting kettles to convert the high metal lead fraction from batteries to lead bullion.
 - A three cubic metre rotary furnace to smelt other lead sources including CRT glass.These are important achievements which will provide Hydromet with the flexibility to produce lead metal from our battery feed and other materials and facilitate product and revenue diversification. This diversification will assist to minimise our reliance on limited product output and buffer us against feed cost and commodity volatility as well.
- Details of these plans are expected to be finalised by December 2011.
- In May 2011 we commissioned a small tilting rotary furnace at our Tomago plant which will enable us to conduct extensive pilot scale test work on a number of compatible metal sources to determine suitability for smelting via this route. The furnace will be invaluable in this assessment task and may lead to other opportunities in precious metal processing as well.

Cathode Ray Tube (CRT) Lead Separation/Recovery Project.

- Pilot test work has commenced on the CRT glass with our pilot tilting rotary furnace mentioned above.
- This development involves a number of feed combination alternatives which are expected to influence the outcome both in lead quality recovered and commercial benefit.
- An extensive test programme will be undertaken in the second half of 2011 to define process options and commercial expectations.

Financial Position

The net assets of the Group have increased from \$21,799,000 as at 30 June 2010 to \$23,389,000 as at 30 June 2011. This increase is largely due to the improved operating performance of the Group.

The Group has increased its borrowing by \$2,938,000 in 2011. The majority of the borrowings are short-term import loans from its principal banker to fund import of raw materials. With improved operating performance, the Group maintains a healthy working capital ratio. The Group's working capital, being current assets less current liabilities, has improved from \$6,392,000 in 2010 to \$8,237,000 in 2011.

During the past year, the Group has invested in infrastructure to secure its long-term success, in particular, upgrade of its plant and equipment and application for new operating licences.

The directors believe that the Group is in a stable financial position to grow its current operations.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- On 9 September 2010, the Company redeemed \$200,000 9% convertible notes.
- On 13 September 2010, the Company redeemed \$250,000 9% convertible notes.

Refer to Note 20 for more details.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Dividends Paid or Recommended

Dividends paid or declared for payment during the financial year are as follows:

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Ordinary dividend paid on 15 October 2010 as recommended in last year report | \$454,000 |
| Interim ordinary dividend of \$0.075 cent per share paid on 25 March 2011 | \$341,000 |
| Final ordinary dividend of \$0.1 cent per share recommended by the directors to be paid on 11 November 2011 out of retained profits at 30 June 2011 | \$455,000 |

Events after the Reporting Period

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Future Development, Prospects and Business Strategies

The future development and business strategies were discussed in the Chairperson's report on page 2 of this financial report.

Environmental Issues

The Group's operations are subject to licence requirements issued under the *POEO Act* in relation to its business of processing used lead acid battery and industrial residues and manufacturing chemical products including treatment processes, immobilisation of by-products, disposal of effluent streams and transportation of materials that are subject to specific approvals from and close scrutiny by the Commonwealth and State Department of Environment and Conservation. The Group is committed to achieving a high standard of environmental performance.

The Federal Government has proposed a new tax on carbon emissions effective from 1 July 2012. The Directors believe the Company is not one of the carbon emitters that would be subject to the new tax. However, some of the operational costs of the Group's operation will increase due to the introduction of this tax. The Group has not yet determined the potential impact of the new tax on its financial performance in the financial year 2013 and beyond.

Information on Directors

Lakshman D Jayaweera

Qualifications

Experience

Interest in Shares and Options

Special Responsibilities

Directorships held in other listed entities during the three years prior to the current year

Chairperson (Executive)

Master of Science and Doctor of Philosophy

Appointed Chairperson in 2001. Appointed Deputy Chairperson in 2000. Board member since 1991.

29,309,498 ordinary shares in Hydromet Corporation Limited.

Responsibilities include technical and business development.

None

Timothy R Allen

Qualifications

Experience

Interest in Shares and Options

Special Responsibilities

Directorships held in other listed entities during the three years prior to the current year

Deputy Chairperson (Independent non-executive)

Member of the Securities Institute of Australia

Appointed Deputy Chairperson in 2006. Board member since 2001.

725,000 ordinary shares in Hydromet Corporation Limited.

Member of the Audit and Remuneration Committee.

Former chairperson of Central West Gold NL.

Gregory W Wrightson

Qualifications

Experience

Interest in Shares and Options

Special Responsibilities

Directorships held in other listed entities during the three years prior to the current year

Managing Director (Executive)

Over 25 years experience in chemical manufacturing.

Appointed Managing Director in 2000. Board member since 1998.

1,263,300 ordinary shares in Hydromet Corporation Limited.

Responsibilities include operations and business development.

None

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

| | |
|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Stephen H Kwan | Director (Independent non-executive) |
| Qualifications | Master of Philosophy |
| Experience | Board member since 1991. |
| Interest in Shares and Options | 46,000 ordinary shares in Hydromet Corporation Limited. |
| Special Responsibilities | Member of the Audit and Remuneration Committee. |
| Directorships held in other listed entities during the three years prior to the current year | None |
| Pipvide S Tang | Director - Finance (Executive) |
| Qualifications | Master of Business Administration and Certified Public Accountant |
| Experience | Board member since 1997. |
| Interest in Shares and Options | 3,334,000 ordinary shares in Hydromet Corporation Limited. |
| Special Responsibilities | Responsibilities include finance and company secretarial functions. |
| Directorships held in other listed entities during the three years prior to the current year | None |
| Yang Chun Ming | Director (Non-executive) |
| Qualifications | Over 30 years experience in chemical engineering and recycling of used lead acid battery. |
| Experience | Board member since May 2009. |
| Interest in Shares and Options | 49,924,000 ordinary shares in Hydromet Corporation Limited. |
| Special Responsibilities | None |
| Directorships held in other listed entities during the three years prior to the current year | None |

Company Secretary

The following person held the position of Company Secretary at the end of the financial year: Mr Pipvide S Tang – Master of Business Administration and Certified Public Accountant. Mr Tang was the Secretary of the Company from 1991 to 1996. He has over 15 years experience as company secretary of listed companies in Australia and overseas. Mr Tang was reappointed Company Secretary on 4 April 2003.

Meetings of Directors

During the financial year 7 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

| Director | Directors' Meetings | | Audit and Remuneration Committee Meetings | |
|--------------|---------------------------|-----------------|-------------------------------------------|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| LD Jayaweera | 5 | 5 | - | - |
| TR Allen | 5 | 5 | 2 | 2 |
| GW Wrightson | 5 | 5 | - | - |
| SH Kwan | 5 | 5 | 2 | 2 |
| PS Tang | 5 | 5 | - | - |
| CM Yang | 5 | 1 | - | - |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES DIRECTORS' REPORT

Indemnifying Officers

During or since the end of the financial year, the Company has given an indemnity or entered into agreements to indemnify, or paid or agreed to pay insurance premiums, as follows:

- The Company has entered into agreements to indemnify the following current directors of the Company, Dr LD Jayaweera, Mr GW Wrightson, Mr SH Kwan, Mr PS Tang, Mr TR Allen and Mr CM Yang and the former director, Mr SB Wolfe (resigned on 23 November 2006), against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.
- The Company has paid premiums to insure each of the current and former directors and senior executive officers of the Company and its controlled entities against liabilities for costs and expenses incurred by them in defending legal proceeding arising from their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The total premiums paid during the year were \$35,017 and the insurance policies do not contain details of the premiums paid in respect of individual officers of the Company.

Options

At the date of this report, there were no unissued ordinary shares of Hydromet Corporation Limited under options.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

During the year ended 30 June 2011, no ordinary shares of Hydromet Corporation Limited were issued on the exercise of options granted. No shares have been issued since year end.

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit Services

No non-audit services were undertaken by the Group's external auditor, HLB Newhouse, during the financial year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and a copy is set out on page 25 of the financial report.

ASIC Class Order 98/100 Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars and in certain circumstances to the nearest dollar.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES DIRECTORS' REPORT

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Hydromet Corporation Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group financial results. The Board of Hydromet Corporation Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy is to be developed by the audit and remuneration committee and approved by the Board;
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives;
- Performance incentives are generally only paid once predetermined key performance indicators have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- The remuneration committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Apart from directors, key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel, excluding directors, are paid employee benefit entitlements accrued to the date of retirement. They are paid regulatory employment entitlements in the event of redundancy. Any options not exercised before or on the date of termination will lapse.

Executive directors receive a superannuation guarantee contribution of 10% under the terms of their employment contracts. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation.

The executive directors will receive a post-employment cash benefit at the date of their retirement or termination of their office. The benefit is calculated as four weeks base salary for every year of employment with the Company. In addition, they are also entitled to receive another post-employment cash benefit at the date of their retirement as director of the Company. The benefit is calculated at \$15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the *Corporations Act 2001*. The aggregate benefit of these two post-employment cash benefits is limited to the sum equal to the latest twelve months base salary received by the director prior to the retirement or termination of office.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The audit and remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting, currently \$300,000.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES DIRECTORS' REPORT

The non-executive directors are entitled to receive a post-employment cash benefit at the date of their retirement as director of the Company. The benefit is calculated at \$15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the *Corporations Act 2001*.

Key management personnel are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and is valued using the Hull-White option-pricing model.

Key management personnel who are subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, i.e. put options, on unvested shares and options which form part of their remuneration package. Such restrictions form part of the terms of the option granted.

Performance-based Remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas, the Board believes, hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the managing director in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, Hydromet Corporation Limited bases the assessment on audited figures and non-financial performance, however, where the KPI involves comparison of the Group, or a division within the Group, to the market, reference is made to external reports available at the time.

Relationship between Remuneration Policy and Company Performances

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first, being a performance-based bonus based on key performance indicators, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy was effective in increasing shareholder wealth over the past few years.

The following table shows the gross revenue, profits and dividends for the last five years for the listed entity, as well as the share prices at the end of the respective financial years. Analysis of the actual figures shows an increase in profits from year 2007 to 2008 as well as an increase of dividends paid to shareholders. The improvement in the Company's performance over the financial years 2007 to 2008 has been reflected in the company's share price with an increase each year. The Board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall upwards trend in shareholder wealth over these years. In 2009 the share price fell as the result of the reported losses incurred under the well documented Global Financial Crisis (GFC). The overall market dropped in financial year 2009 and continued to fall subsequent to year-end 2010. The consolidated group returned to profit in 2010 following a slow recovery of the world economy and its profitability was returned to pre-GFC performance in 2011.

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Revenue | 68,708 | 43,150 | 27,923 | 34,148 | 20,005 |
| Comprehensive income | 2,418 | 2,181 | (3,338) | 2,556 | 2,255 |
| Share price at year-end (cents) | 4.0 | 2.9 | 4.1 | 7.8 | 7.2 |
| Dividends paid and payable (cents) | 0.175 | 0.1 | - | 0.2 | 0.1 |

The directors considered that the share price was not as stable as was expected during the year, reaching a low of \$0.029 and a high of \$0.068. It is a concern of the Board and the executives as the share price failed to reflect the latest performance of the Company. Greater fluctuations of the share price may disadvantage shareholders, especially long term supporters of the Company. The Board has decided to improve the communication between the Company and shareholders so as to increase investor awareness of the Company and to stabilise the Company's share price in line with its consistent and stable financial position.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Performance Conditions Linked to Remuneration

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of a cash bonus reward scheme, specifically the incorporation of incentive payments based on the achievement of production target, revenue targets and continued employment with the Group. Incentive payments result from where the production target and revenue target exceed the forecast prepared half yearly. This condition provides management with a performance target which focuses upon production efficiency, sales growth and utilisation of Group's resources.

The performance related proportions of remuneration based on these targets are included in the following table. The objective of the reward schemes is to both reinforce the short and long-term goals of the Group to provide a common interest between management and shareholders. There has been no alteration to the terms of the bonuses paid since the grant date.

The satisfaction of the performance conditions are based on a review of the internal management reports and audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons, who were during the financial year, members of key management personnel of the consolidated group and to the extent different, among the three Group executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

| Group Key Management Personnel | Position held as at 30 June 2011 and any change during the year | Contract details (duration & termination) | Proportions of elements of remuneration related to performance | | Proportions of elements of remuneration not related to performance | | Total |
|--------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------|---------|--------------------------------------------------------------------|---|-------|
| | | | Non-salary cash-based incentives | Options | Fixed Salary/ Fees | | |
| | | | % | % | % | % | |
| Dr LD Jayaweera | Chairperson (Executive) | 3 year contract from 1 July 2009. Refer Note (a). | - | - | 100.0 | | 100 |
| Mr TR Allen | Deputy Chairperson (Non-executive) | No fixed term. Refer Note (b). | - | - | 100.0 | | 100 |
| Mr GW Wrightson | Managing Director (Executive) | 3 year contract from 1 January 2009. Refer Note (a). | - | - | 100.0 | | 100 |
| Mr PS Tang | Finance Director (Executive) | 3 year contract from 1 July 2009. Refer Note (a). | - | - | 100.0 | | 100 |
| Mr SH Kwan | Director (Non-executive) | No fixed term. Refer Note (b). | - | - | 100.0 | | 100 |
| Mr CM Yang | Director (Non-executive) | No fixed term. Refer Note (b). | - | - | 100.0 | | 100 |
| Mr P Segura | Site Manager | No fixed term. 1 month notice required to terminate. Note (c). | 1.4 | - | 98.6 | | 100 |
| Mr BJ Wyborn | Site Manager | No fixed term. 2 months notice required to terminate. Note (c). | 1.4 | - | 98.6 | | 100 |
| Mr J Perera | Production Manager | No fixed term. 1 months notice required to terminate. Note (c). | 1.7 | - | 98.3 | | 100 |

Note (a): Executive directors are subject to similar contracts requiring 6 months notice to be given on termination. The executive directors will receive a post-employment cash benefit at the date of their retirement or termination of their office. The benefit is calculated as four weeks base salary for every year of employment with the Company. The benefit is limited to the sum equal to the latest twelve months base salary received by them prior to the retirement or termination of office.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Note (b): The Non-executive directors require no notice on termination. They are entitled to receive a post-employment cash benefit at the date of their retirement or termination of their office. The benefit is calculated at \$15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the *Corporations Act 2001*.

Note (c): The employment terms and conditions of the Group executives are formalised in an employment letter. Upon retirement, Group executives are paid regulatory employee benefit entitlements accrued to the date of retirement.

Remuneration details for the Year Ended 30 June 2011

The following table shows the benefit and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the consolidated group and to the extent different, the three Group executives receiving the highest remuneration.

Table of Benefit and Payments for the Year ended 30 June 2011

| | | Short-term benefits | | | Total | Post-employment benefit | | Long – term benefit | Other compensation | Equity-settled share-based payments | Total | |
|---------------------------------------|---------------------------------------|----------------------|------------------|---------------|----------------|-------------------------|----------------|---------------------|--------------------|-------------------------------------|----------------|------------------|
| | | Salary, fees & leave | Cash bonuses | Non-monetary | | Super-annuation | Retirement* | Long service leave | Insurance premium | Options | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Group Key Management Personnel | Dr LD Jayaweera | 2011 | 269,999 | - | 33,876 | 303,875 | 27,000 | 14,627 | 10,755 | 5,836 | - | 362,093 |
| | | 2010 | 262,687 | - | 28,393 | 291,080 | 27,650 | 13,283 | 1,646 | 5,727 | 26,753 | 366,139 |
| | Mr TR Allen | 2011 | 53,292 | - | - | 53,292 | 16,655 | 16,873 | - | 5,836 | - | 92,656 |
| | | 2010 | 61,638 | - | - | 61,638 | 4,647 | 15,598 | - | 5,727 | 26,753 | 114,363 |
| | Mr GW Wrightson | 2011 | 247,000 | - | 31,948 | 278,948 | 50,000 | 31,901 | 14,881 | 5,836 | - | 381,566 |
| | | 2010 | 240,043 | - | 30,267 | 270,310 | 25,235 | 13,283 | 27,352 | 5,727 | 26,753 | 368,660 |
| | Mr PS Tang | 2011 | 172,216 | - | 24,540 | 196,756 | 17,222 | 14,627 | 4,928 | 5,836 | - | 239,369 |
| | | 2010 | 141,405 | - | 26,797 | 168,202 | 14,140 | 13,283 | 12,015 | 5,727 | 26,753 | 240,120 |
| | Mr SH Kwan | 2011 | 67,114 | - | - | 67,114 | 4,950 | 14,627 | - | 5,836 | - | 92,527 |
| | | 2010 | 66,482 | - | - | 66,482 | 4,647 | 13,283 | - | 5,727 | 26,753 | 116,892 |
| | Mr CM Yang | 2011 | 54,724 | - | - | 54,724 | 4,925 | 12,424 | - | 5,836 | - | 77,909 |
| | | 2010 | 50,000 | - | - | 50,000 | 5,134 | 10,892 | - | 5,727 | - | 71,753 |
| | Mr P Segura | 2011 | 146,496 | 2,750 | 19,129 | 168,375 | 17,011 | - | 7,248 | - | - | 192,634 |
| | | 2010 | 138,452 | 6,600 | 15,292 | 160,344 | 12,460 | - | 2,810 | - | 6,688 | 182,302 |
| | Mr BJ Wyborn | 2011 | 116,885 | 2,885 | 26,644 | 146,414 | 47,764 | - | 5,851 | - | - | 200,029 |
| | | 2010 | 138,442 | 6,600 | 20,592 | 165,634 | 12,459 | - | 2,616 | - | 6,822 | 187,531 |
| | Mr. J Perera | 2011 | 137,008 | 2,635 | - | 139,643 | 12,331 | - | 5,800 | - | - | 157,774 |
| | | 2010 | 124,917 | 6,600 | - | 131,517 | 11,242 | - | 2,572 | - | 4,013 | 149,344 |
| | Total Key Management Personnel | 2011 | 1,264,734 | 8,270 | 136,137 | 1,409,141 | 197,858 | 105,079 | 49,463 | 35,016 | - | 1,796,557 |
| | | 2010 | 1,224,066 | 19,800 | 121,341 | 1,365,207 | 117,614 | 79,622 | 49,011 | 34,362 | 151,288 | 1,797,104 |

* The amount is the present value of benefit attributed to current year.

Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Cash Bonuses, Performance-Related Bonus and Share-based Payments

The terms and conditions relating to options and bonuses granted as remuneration to key management personnel during the year are as follows:

| | Remune- ration type | Grant date | Grant value \$ | Reason for grant | Percentage paid during year % | Percentage forfeited during year % | Percentage remaining as unvested % | Expiry date for vesting or payment | Range of possible values relating to future payment |
|---------------------------------------|---------------------------|------------|--------------------------|------------------------|-------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------|
| Group Key Management Personnel | | | | | | | | | |
| Mr P Segura | Cash | 20.12.2010 | 2,750 | Note 1 | 100 | - | - | n/a | - |
| Mr BJ Wyborn | Cash | 20.12.2010 | 2,885 | Note 1 | 100 | - | - | n/a | - |
| Mr. J Perera | Cash | 20.12.2010 | 2,635 | Note 1 | 100 | - | - | n/a | - |

Note 1: Cash bonuses were awarded as part of the Group's incentive and motivation scheme for the retention of key executives. Such persons were deemed to have satisfied the prerequisites for the receipt of their awards based on satisfaction of KPI measures production targets.

Note 2: The dollar value of the percentage paid during the period has been reflected in the Table of Benefits and Payments.

Options and Rights Granted

No options were issued to Key Management Personnel during the year. At 30 June 2011 no options were held by Key Management Personnel.

This director report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Gregory Wrightson

Director

Dated: 25 August 2011

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION

UNDER S307C OF THE CORPORATIONS ACT 2001

To the Directors of Hydromet Corporation Limited

As lead auditor for the audit of Hydromet Corporation Limited for the period ended 30 June 2011, I declare that, to the best of my knowledge and beliefs, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hydromet Corporation Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'A. J. Newhouse', with a horizontal line underneath.

Andrew J Newhouse
Partner
HLB Newhouse
Wollongong, 25th August 2011

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011**

| | Note | Consolidated Group | |
|--------------------------------------------------------------------------------------------|------|--------------------|---------------|
| | | 2011 \$000 | 2010 \$000 |
| Revenue | 3 | 68,708 | 43,150 |
| Other income | 3 | 116 | - |
| Changes in inventories | | (24) | (3,991) |
| Raw materials and consumables used | | (47,145) | (24,254) |
| Other direct production costs | | (7,164) | (6,999) |
| Employee benefits expenses | | (7,041) | (6,388) |
| Depreciation and amortisation expenses | | (912) | (864) |
| Net (loss)/gain on sale of property, plant & equipment | | (3) | 1 |
| Finance costs | | (191) | (533) |
| Effective portion of gain/(loss) on cash flow hedge | | (959) | 845 |
| Other expenses | | (1,800) | (1,482) |
| Profit/(Loss) before income tax | 4 | 3,585 | (515) |
| Income tax (expense)/benefit | 5 | (1,100) | 139 |
| Profit for the year | | <u>2,485</u> | <u>(376)</u> |
| Other Comprehensive Income | | | |
| Effective portion of loss on cash flow hedge | 5c | (67) | - |
| Net gain on revaluation of land and building | 5c | - | 2,557 |
| Other comprehensive income/(loss) for the year, net of tax | | <u>(67)</u> | <u>2,557</u> |
| Total comprehensive income/(loss) attributable to the members of the parent company | | <u>2,418</u> | <u>2,181</u> |
| Earnings per share | | | |
| Basic earnings per share (cents per share) | 9 | 0.547 | (0.09) |
| Diluted earnings per share (cents per share) | 9 | 0.548 | (0.075) |

The accompanying notes form part of these financial statements.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011**

| | Note | Consolidated Group | |
|--------------------------------------|------|--------------------|---------------|
| | | 2011 | 2010 |
| | | \$000 | \$000 |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 10 | 3,618 | 4,450 |
| Trade and other receivables | 11 | 7,659 | 10,447 |
| Inventories | 12 | 10,622 | 5,438 |
| Derivatives | 13 | 110 | - |
| Other assets | 14 | 90 | 141 |
| TOTAL CURRENT ASSETS | | 22,099 | 20,476 |
| NON-CURRENT ASSETS | | | |
| Deferred tax assets | 22 | 2,387 | 4,225 |
| Property, plant and equipment | 16 | 13,600 | 13,413 |
| Intangible assets | 17 | 663 | 663 |
| Other non-current assets | 18 | 557 | 557 |
| TOTAL NON-CURRENT ASSETS | | 17,207 | 18,858 |
| TOTAL ASSETS | | 39,306 | 39,334 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 19 | 5,867 | 8,711 |
| Borrowings | 20 | 5,796 | 2,170 |
| Employee benefits | 21 | 960 | 854 |
| Deferred income | | 64 | 60 |
| Short-term provisions | 23 | 1,175 | 2,289 |
| TOTAL CURRENT LIABILITIES | | 13,862 | 14,084 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 20 | 154 | 842 |
| Employee benefits | 21 | 427 | 368 |
| Deferred tax liabilities | 22 | 1,474 | 2,241 |
| TOTAL NON-CURRENT LIABILITIES | | 2,055 | 3,451 |
| TOTAL LIABILITIES | | 15,917 | 17,535 |
| NET ASSETS | | 23,389 | 21,799 |
| EQUITY | | | |
| Issued capital | 24 | 73,077 | 73,077 |
| Reserves | 33 | 2,512 | 2,612 |
| Accumulated losses | | (52,200) | (53,890) |
| TOTAL EQUITY | | 23,389 | 21,799 |

The accompanying notes form part of these financial statements.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011**

| | Share Capital Ordinary | Accumulated losses | Reserves | | | | Total |
|-----------------------------------------------------------------------------------------------|------------------------------|-----------------------|--------------------|----------------------------------|---------------------------------------------|-----------------------------------|---------------|
| | | | Hedging reserve | Assets revaluation reserve | Compound instrument equity reserve | Equity compensation reserve | |
| Note | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2009 | 70,239 | (54,492) | (51) | - | 39 | 717 | 16,452 |
| Loss for the year | - | (376) | - | - | - | - | (376) |
| Net gain on revaluation of land and building | - | - | - | 2,557 | - | - | 2,557 |
| Total comprehensive income for the year | - | (376) | - | 2,557 | - | - | 2,181 |
| Transactions with owners, in their capacity as owners, and other transfers | | | | | | | |
| Shares issued during the year | 2,870 | - | - | - | - | - | 2,870 |
| Transaction costs | (32) | - | - | - | - | - | (32) |
| Transferred to Accumulated losses | - | 978 | - | - | - | (978) | - |
| Convertible notes issued during the year | - | - | - | - | 16 | - | 16 |
| Equity settled transactions, net of tax | - | - | - | - | - | 261 | 261 |
| Transferred to profit or loss | - | - | 51 | - | - | - | 51 |
| Total transactions with owners and other transfers | 2,838 | 978 | 51 | - | 16 | (717) | 3,166 |
| Balance at 30 June 2010 | 73,077 | (53,890) | - | 2,557 | 55 | - | 21,799 |
| Balance at 1 July 2010 | 73,077 | (53,890) | - | 2,557 | 55 | - | 21,799 |
| Profit for the year | - | 2,485 | - | - | - | - | 2,485 |
| Gain/(loss) on cash flow hedge | - | - | (67) | - | - | - | (67) |
| Total comprehensive income for the year | - | 2,485 | (67) | - | - | - | 2,418 |
| Transactions with owners, in their capacity as owners, and other transfers | | | | | | | |
| Dividends recognised for the year | 8 | (795) | - | - | - | - | (795) |
| Convertible notes redeemed during the year | - | - | - | - | (33) | - | (33) |
| Total transactions with owners and other transfers | - | (795) | - | - | (33) | - | (828) |
| Balance at 30 June 2011 | 73,077 | (52,200) | (67) | 2,557 | 22 | - | 23,389 |

The accompanying notes form part of these financial statements.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011**

| | Note | Consolidated Group | |
|----------------------------------------------------------------|------|---------------------|---------------------|
| | | 2011 \$000 | 2010 \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 71,355 | 38,211 |
| Payment to suppliers and employees | | (73,034) | (39,214) |
| Interest received | | 84 | 75 |
| Finance costs | | (191) | (214) |
| Income tax (paid)/refunded | | - | 5 |
| Net cash used in operating activities | 28 | <u>(1,786)</u> | <u>(1,137)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (1,127) | (769) |
| Proceeds from sale of property, plant and equipment | | 24 | 36 |
| Net cash used in investing activities | | <u>(1,103)</u> | <u>(733)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Payment of finance lease liabilities | | (703) | (294) |
| Proceeds from issue of shares | | - | 2,838 |
| Dividends paid by parent entity | | (795) | - |
| Repayments of borrowings | | (447) | - |
| Proceeds from borrowings | | 4,054 | 1,079 |
| Net cash provided by financing activities | | <u>2,109</u> | <u>3,623</u> |
| Net increase/(decrease) in cash held | | (780) | 1,753 |
| Cash and cash equivalents at beginning of financial year | | 4,450 | 2,908 |
| Effect of exchange rate on cash holdings in foreign currencies | | (52) | (211) |
| Cash and cash equivalents at end of financial year | 10 | <u><u>3,618</u></u> | <u><u>4,450</u></u> |

The accompanying notes form part of these financial statements.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Hydromet Corporation Limited (the 'Company') is a publicly listed company incorporated and domiciled in Australia. These consolidated financial statements and notes represent those of Hydromet Corporation Limited and controlled entities (the consolidated group or Group).

The financial statements were authorised for issue on 25 August 2011 by the directors of the Company.

Note 1: Summary of Significant Accounting Policies

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standard Board (IASB). Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Hydromet Corporation Limited at the end of the reporting period. A controlled entity is any entity which Hydromet Corporation Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 15 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Group have been eliminated in full.

b. Income Tax

The income tax expense (benefit) for the year comprises current income tax expense (benefit) and deferred tax expense (benefit).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (benefit) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of Significant Accounting Policies (cont'd)

b. Income Tax (cont'd)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

c. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

d. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land is recorded at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers.

Increases in the carrying amount arising on revaluation of land are credited to the asset revaluation reserve in equity. Decreases that offset previous increases of the same asset are recognised against asset revaluation reserve directly in equity; all other decreases are recognised in profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Buildings are recorded at cost less subsequent depreciation.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when or impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 1: Statement of Significant Accounting Policies (cont'd)

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|-----------------------------|--------------------------|
| Building | 2.5% |
| Plant & equipment | 12.5-25% |
| Office equipment | 12.5-27% |
| Motor vehicles | 15-25% |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss. When a revalued asset is sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

e. Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

f. Lease

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, that are transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Statement of Significant Accounting Policies (cont'd)

g. Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified at fair value through profit or loss, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, relate to derivatives not held for hedging purposes, or when they are designated as such. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. *Loan and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets where they are expected to mature beyond 12 months after the end of the reporting period. All other investments are classified as current assets.

iv. *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are measured at amortised cost.

v. *Financial instruments measured at fair value*

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- Quoted prices in active markets for identical assets or liabilities (Level 1)
- Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Input for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Statement of Significant Accounting Policies (cont'd)

Derivative instruments

The Group designate certain derivatives as either:

- i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii. hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions, is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

i. Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in profit or loss, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

ii. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in the hedge reserve in equity are transferred to profit or loss in the periods when the hedged item will affect profit or loss.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation, in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a one year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

h. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for intangible assets with indefinite lives.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Statement of Significant Accounting Policies (cont'd)

i. Intangibles Other than Goodwill

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Other intangible assets

The Group's hydrometallurgical processing technology (Hydroproc process), which has an indefinite useful life, is systematically tested for impairment at each balance sheet date. The useful life of Hydroproc process is assessed annually.

j. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

k. Employee Benefit

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash outflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Equity-settled compensation

The Group operates an employee share option ownership plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting period. The fair value of options is determined using the Hull-White option-pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

l. Provision

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimated of the amounts required to settle the obligation at the end of the reporting period.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Statement of Significant Accounting Policies (cont'd)

m. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

n. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods. The revenue to be received on sale of goods is determined at an agreed market measure at an agreed future period, and depends on the assay quantity of materials delivered. For sale prior to balance date, revenue recognised is based on expected market measure and expected quantity delivered.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All dividends received are recognised as revenue when the right to receive the dividend has been established.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

o. Borrowing Costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

p. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

q. Government Grants

Grants are recognised during the period in which the grant is received.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Statement of Significant Accounting Policies (cont'd)

r. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

When the Group has retrospectively applied an accounting policy, makes a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

The Group made an error in its financial statements for the year ended 30 June 2010. The error was caused by misunderstanding of the stock on hand as at 30 June 2010 by its staff members. The error caused the inventory as at 30 June 2010 to be overstated by \$1,218,000 in its financial statements.

An after tax gain of \$591,000 (\$845,000 before tax) from the effective portion of cash flow hedges was classified under other comprehensive income in the 2010 consolidated statement of comprehensive income. The item was reclassified in the 2011 consolidated statement of comprehensive income under operating profit. The following corrections have been made to the comparative figures of these financial statements:

1. The loss before income tax increased by \$373,000 to \$515,000.
2. Income tax benefit increased by \$111,000 to \$139,000.
3. The loss after tax for the year increased by \$262,000 to \$376,000.
4. Other comprehensive income decreased by \$591,000 to \$2,557,000.
5. Inventories reduced by \$1,218,000 to \$5,438,000.
6. Deferred tax assets increased by \$365,000 to \$4,225,000.
7. Accumulated losses as at 30 June 2010 increased by \$853,000 to \$53,890,000.
8. Total equity decreased by \$853,000 to \$21,799,000.
9. Total comprehensive income for the period attributable to the members of the parent company decreased by \$853,000 to \$2,181,000.
10. The basic and diluted earnings per share for the financial year ended 30 June 2010 were reduced to losses of 0.09 cent and 0.075 cent respectively.

s. Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest \$1,000, or in certain circumstance to the nearest dollar.

t. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

i. Impairment

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key judgments

i. Exploration and Evaluation Expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$557,000.

u. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. These standards and interpretation are not expected to have a significant impact on the Group.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 2: Parent Information

| | 2011 | 2010 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| | \$000 | \$000 |
| The following information has been extracted from the books and records of the parent company and has been prepared in accordance with Australian Accounting Standards. | | |
| Statement of financial position | | |
| Assets | | |
| Current assets | 1,156 | 3,017 |
| Total assets | 27,658 | 30,268 |
| Liabilities | | |
| Current liabilities | 779 | 588 |
| Total liabilities | 15,273 | 15,480 |
| Equity | | |
| Issued capital | 73,077 | 73,077 |
| Compound instrument equity reserve | 22 | 55 |
| Accumulated losses | (60,713) | (58,344) |
| Total Equity | 12,386 | 14,788 |
| Statement of comprehensive income | | |
| Total profit/(loss) | (1,574) | 767 |
| Total comprehensive income/(loss) | (1,574) | 767 |

Guarantees

Hydromet Corporation Limited has guaranteed a finance lease liability and bank overdraft of Hydromet Operations (Southern) Ltd, a wholly owned subsidiary of the Company. Under the terms of the financial guarantee contract, the Company or the Group will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due.

As at 30 June 2011 the subsidiary had an outstanding balance of \$62,000 (2010: \$297,000) on its finance lease. The face value of the overdraft facility of the subsidiary is \$500,000. As at balance date the amount owing was \$nil (2010: \$nil).

The parent entity is also a party to a deed of cross guarantee, as detailed in Note 15.

Contractual commitments

At 30 June 2011, Hydromet Corporation Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2010: Nil).

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

| | Consolidated Group | |
|------------------------------------------------------------------------------------------------------------|---------------------------|---------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Note 3: Revenue and Other Income | | |
| Revenue from continuing operations | | |
| Sales revenue | | |
| - sales of goods | 67,439 | 41,463 |
| - provision of services | 1,090 | 1,457 |
| | 68,529 | 42,920 |
| Other revenue | | |
| Export market development grant | 41 | 50 |
| Interest received from other persons | 84 | 75 |
| Freight Income | 13 | 74 |
| Other revenue | 41 | 31 |
| | 179 | 230 |
| Total Revenue | 68,708 | 43,150 |
| Other Income | | |
| Foreign currency translation gain | 113 | - |
| Other | 3 | - |
| | 116 | - |
| Note 4: Profit/(loss) for the Year | | |
| Profit/(loss) before income tax from continuing operations includes the following specific expenses: | | |
| a. Expenses | | |
| Cost of sales | 47,169 | 28,245 |
| Interest expense on financial liabilities: | | |
| - external | 191 | 533 |
| Fair value loss on commodity swaps designated as cash flow hedges transferred from equity | 959 | 845 |
| Total finance cost | 1,150 | 1,378 |
| Rental expense on operating leases | | |
| - minimum lease payments | 68 | 176 |
| Research & development costs | 16 | 16 |
| Foreign currency translation (profit)/losses | (113) | 318 |
| b. Significant Revenue and Expenses | | |
| The following significant revenue and (expense) item are relevant in explaining the financial performance: | | |
| Net loss on change in net realisable value of battery inventory | - | (180) |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

| | Consolidated Group | |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Note 5: Income Tax Expense | | |
| a. The components of tax expense/(benefit) comprise: | | |
| Deferred tax | 1,100 | (134) |
| Adjustment in respect of prior years | - | (5) |
| | 1,100 | (139) |
| b. The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax as follows: | | |
| Prima facie tax (benefit)/expense on (loss)/profit from ordinary activities before income tax at 30% (2010: 30%) | | |
| - Consolidated group | 1,075 | (154) |
| Add: | | |
| Tax effect of: | | |
| - Other assessable income | - | 2 |
| - Non-deductible expenses | 27 | 104 |
| Less: | | |
| Tax effect of: | | |
| - Other deductible expenses | (2) | (8) |
| - Adjustments for prior periods | - | (83) |
| Income tax expense/(benefit) attributable to entity | 1,100 | (139) |
| The applicable weighted average effective tax benefit rates are as follows: | 31% | 27% |

The increase in the weighted average effective consolidated tax rate for 2011 is a result of favourable adjustments for prior period recorded in 2010 and none in 2011.

c. Tax effects relating to each component of other comprehensive income

| | Before-tax amount | 2011 Tax (expenses) benefit | Net-of-tax amount | Before-tax amount | 2010 Tax (expenses) benefit | Net-of-tax amount |
|----------------------------------------------|--------------------------|------------------------------------|--------------------------|--------------------------|------------------------------------|--------------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Consolidated Group | | | | | | |
| Effective portion of loss on cash flow hedge | (95) | 28 | (67) | - | - | - |
| Net gain on revaluation of land and building | - | - | - | 3,654 | (1,097) | 2,557 |
| | (95) | 28 | (67) | 3,654 | (1,097) | 2,557 |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 6: Interest of Key Management Personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

| | 2011 | 2010 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Short-term employee benefits | 1,409,141 | 1,365,207 |
| Post-employment benefits | 302,937 | 197,236 |
| Other long-term benefit | 49,463 | 49,011 |
| Other compensation | 35,016 | 34,362 |
| Share-based payments | - | 151,288 |
| | <u>1,796,557</u> | <u>1,797,104</u> |

KMP Options and Rights Holdings

The number of unlisted options over ordinary shares held by each KMP of the Group during the financial year was as follows:

| | Balance at beginning of year | Expired during the year | Balance at end of year | Vested during the year | Vested and exercisable | Vested and unexercisable |
|---------------------|---------------------------------------------|----------------------------------------|-----------------------------------|---------------------------------------|-----------------------------------|-------------------------------------|
| 30 June 2011 | | | | | | |
| Dr LD Jayaweera | - | - | - | - | - | - |
| Mr TR Allen | - | - | - | - | - | - |
| Mr GW Wrightson | - | - | - | - | - | - |
| Mr PS Tang | - | - | - | - | - | - |
| Mr SH Kwan | - | - | - | - | - | - |
| Mr P Segura | - | - | - | - | - | - |
| Mr BJ Wyborn | - | - | - | - | - | - |
| Mr J Perera | - | - | - | - | - | - |
| 30 June 2010 | | | | | | |
| Dr LD Jayaweera | 2,000,000 | (2,000,000) | - | 500,000 | - | - |
| Mr TR Allen | 2,000,000 | (2,000,000) | - | 500,000 | - | - |
| Mr GW Wrightson | 2,000,000 | (2,000,000) | - | 500,000 | - | - |
| Mr PS Tang | 2,000,000 | (2,000,000) | - | 500,000 | - | - |
| Mr SH Kwan | 2,000,000 | (2,000,000) | - | 500,000 | - | - |
| Mr P Segura | 500,000 | (500,000) | - | 125,000 | - | - |
| Mr BJ Wyborn | 510,000 | (510,000) | - | 127,500 | - | - |
| Mr J Perera | 300,000 | (300,000) | - | 75,000 | - | - |

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 6: Interest of Key Management Personnel (KMP) (cont'd)

The number of listed options over ordinary shares held by each KMP of the Group during the financial year is as follows:

| | Balance at beginning of year | Expired during the year | Balance at end of year |
|---------------------|---------------------------------------------|----------------------------------------|-----------------------------------|
| 30 June 2011 | | | |
| Dr LD Jayaweera | - | - | - |
| Mr TR Allen | - | - | - |
| Mr GW Wrightson | - | - | - |
| Mr PS Tang | - | - | - |
| 30 June 2010 | | | |
| Dr LD Jayaweera | 50,000 | (50,000) | - |
| Mr TR Allen | 25,000 | (25,000) | - |
| Mr GW Wrightson | 30,000 | (30,000) | - |
| Mr PS Tang | 50,000 | (50,000) | - |

KMP Shareholdings

The number of ordinary shares in Hydromet Corporation Limited held by each KMP of the Group during the financial year is as follows:

| | Balance at beginning of year | (Sold)/ purchased during the year | Balance at end of year |
|---------------------|---------------------------------------------|------------------------------------------------------|---------------------------------------|
| 30 June 2011 | | | |
| Dr LD Jayaweera | 28,549,498 | 760,000 | 29,309,498 |
| Mr TR Allen | 725,000 | - | 725,000 |
| Mr GW Wrightson | 1,263,300 | - | 1,263,300 |
| Mr PS Tang | 3,334,000 | - | 3,334,000 |
| Mr SH Kwan | 46,000 | - | 46,000 |
| Mr CM Yang | 49,924,000 | - | 49,924,000 |
| Mr P Segura | 389,241 | (389,241) | - |
| Mr BJ Wyborn | 260,000 | - | 260,000 |
| Mr J Perera | - | 124,975 | 124,975 |
| 30 June 2010 | | | |
| Dr LD Jayaweera | 27,799,498 | 750,000 | 28,549,498 |
| Mr TR Allen | 350,000 | 375,000 | 725,000 |
| Mr GW Wrightson | 1,138,300 | 125,000 | 1,263,300 |
| Mr PS Tang | 2,959,000 | 375,000 | 3,334,000 |
| Mr SH Kwan | 46,000 | - | 46,000 |
| Mr CM Yang | 49,924,000 | - | 49,924,000 |
| Mr P Segura | 138,000 | 251,241 | 389,241 |
| Mr BJ Wyborn | 160,000 | 100,000 | 260,000 |
| Mr J Perera | - | - | - |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 6: Interest of Key Management Personnel (KMP) (cont'd)

Other KMP Transaction

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 31 Related Party Transactions.

| | Consolidated Group | |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Note 7: Auditors' Remuneration | | |
| Remuneration of the auditors of the parent entity: | | |
| HLB Newhouse | | |
| - auditing or reviewing the financial report | 74 | 71 |
| Note 8: Dividends | | |
| <i>Distribution paid:</i> | | |
| 2010 final fully franked ordinary dividend of 0.1 cent per share franked at the tax rate of 30% (2009: 30%) paid on 15 October 2010 | 454 | - |
| 2011 interim fully franked ordinary dividend of 0.075 cent per share franked at the tax rate of 30% (2010: 30%) paid on 25 March 2011 | 341 | - |
| | 795 | - |
| <i>Dividend not recognised at the end of the reporting period</i> | | |
| 2011 final fully franked ordinary dividend of 0.1 cent per share franked at the tax rate of 30% (2010: 30%) payable on 11 November 2011 | 455 | - |
| Total dividends per share for the period | 0.175 cent | 0.1 cent |
| Balance of franking account at year-end adjusted for franking credits arising from payment of provision for income tax | 2,609 | 2,949 |
| Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected above | (195) | (194) |
| | 2,414 | 2,755 |
| Note 9: Earnings per Share | | |
| a. Reconciliation of earnings to profit or loss | | |
| Earning used to calculate basic EPS | 2,485 | (376) |
| Interest on convertible notes, net of tax | 27 | 57 |
| Earnings used in the calculation of dilutive EPS | 2,512 | (319) |
| | No. | No. |
| | 000 | 000 |
| b. Weighted average number of ordinary shares (in thousands of shares) used in calculating basic EPS | 454,512 | 417,547 |
| Weighted average number of diluted convertible notes on issue | 3,750 | 9,375 |
| Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted EPS | 458,262 | 426,922 |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

| | Consolidated Group | |
|-------------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Note 10: Cash and Cash Equivalents | | |
| Cash at bank and in hand | 2,568 | 1,693 |
| Short-term bank deposits | 1,050 | 2,757 |
| | 3,618 | 4,450 |

The effective interest rate on short-term bank deposit was 4.6% (2010: 4.2%); these deposits are at call.

Note 11: Trade and Other Receivables

| | | |
|-------------------------------------------|-------|--------|
| CURRENT | | |
| Trade receivables | 7,344 | 8,969 |
| Other receivables | 315 | 1,478 |
| Total current trade and other receivables | 7,659 | 10,447 |

Credit Risk

The Group has no significant concentration of credit risk with respect to any single counter-party or group of counter-parties other than those receivables specifically provided for and mentioned within Note 11. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant credit risk exposures in Europe and Australia. The Group's exposure to credit risk for current receivables at reporting date in those regions is as follows:

| | Consolidated Group | |
|---------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Australia | 1,974 | 2,823 |
| Europe | 3,510 | 6,133 |
| Asia Pacific | 1,918 | 736 |
| North America | 257 | 755 |
| | 7,659 | 10,447 |

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled within the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 11: Trade and Other Receivables (cont'd)

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

| | Carrying amount | Past due and impaired | Past due but not impaired | | Within initial trade terms |
|-------------------|--------------------|--------------------------|------------------------------|----------|-------------------------------|
| | | | (days overdue) | | |
| | | | <30 | >30 | |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| 2011 | | | | | |
| Trade receivables | 7,344 | - | - | - | 7,344 |
| Other receivables | 315 | - | - | - | 315 |
| Total | 7,659 | - | - | - | 7,659 |
| 2010 | | | | | |
| Trade receivables | 8,969 | - | - | - | 8,969 |
| Other receivables | 1,478 | - | - | - | 1,478 |
| Total | 10,447 | - | - | - | 10,447 |

| Note | Consolidated Group | |
|------|--------------------|-------|
| | 2011 | 2010 |
| | \$000 | \$000 |

Note 12: Inventories

CURRENT

At cost

Raw material and consumables

Work in progress

Finished goods

| | |
|---------------|--------------|
| 6,740 | 158 |
| 2,967 | 306 |
| 488 | 2,817 |
| 10,195 | 3,281 |

At net realisable value

Raw material and consumables

Finished goods

| | |
|---------------|--------------|
| - | 1,375 |
| 427 | 782 |
| 427 | 2,157 |
| 10,622 | 5,438 |

Note 13: Derivatives

CURRENT

Assets

Commodity swap contracts

| | Level 1 | |
|----|------------|----------|
| 32 | 110 | - |
| | 110 | - |

Commodity swap contracts are used to hedge cash flow risk associated with future transactions. Gains and losses arising from changes in the fair value of derivatives are initially recognised directly in a hedge reserve in the equity section of the statement of financial position. At the date of the transaction, amounts included in the hedge reserve are transferred from equity and included in profit or loss or the cost of assets.

Included within Level 1 of the hierarchy are derivative instruments. The fair values of these financial liabilities have been based on the closing quoted bid price at the end of the reporting period, excluding transaction costs.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 14: Other Financial Assets

| | Consolidated Group | |
|-------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| CURRENT | | |
| Prepayments | 90 | 141 |

Note 15: Controlled Entities

a. Controlled Entities Consolidated

| | Country of incorporation | Percentage Owned* | |
|------------------------------------------------------|-------------------------------------|--------------------------|-------------|
| | | 2011 | 2010 |
| | % | % | |
| Subsidiaries of HydroMet Corporation Limited: | | | |
| HydroMet Operations (Southern) Limited | Australia | 100 | 100 |
| Hydromet Corporation Debenture Nominees Pty Limited | Australia | 100 | 100 |
| Mineral Estates Pty Limited | Australia | 100 | 100 |
| HydroMet Operations Limited | Australia | 100 | 100 |
| Subsidiaries of Mineral Estates Pty Limited: | | | |
| MinMet Operations Pty Limited | Australia | 100 | 100 |
| Kia Pacific Gold Pty Limited | Australia | 100 | 100 |
| MinMet Unit Trust | Australia | 100 | 100 |

* Percentage of voting power is in proportion to ownership.

b. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The subsidiaries subject to the deed are:

- Hydromet Operations Limited
- Hydromet Operations (Southern) Limited
- Hydromet Corporation Debenture Nominees Pty Limited

| | Parties to Deed of Cross Guarantee | |
|------------------------------------------------------------|---------------------------------------------------|--------------|
| | Closed Group | 2011 |
| | 2011 | \$000 |
| | \$000 | \$000 |
| Financial information in relation to: | | |
| i. Statement of Comprehensive Income | | |
| Profit/(Loss) before income tax | 3,585 | (622) |
| Income tax (expense)/benefit | (1,100) | 168 |
| Profit/(Loss) after income tax | 2,485 | (454) |
| Profit/(Loss) attributable to members of the parent entity | 2,485 | (454) |

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 15: Controlled Entities (cont'd)

b. Deed of Cross Guarantee (cont'd)

| | Closed Group 2011 \$000 | Parties to Deed of Cross Guarantee 2011 \$000 |
|-------------------------------------------------|----------------------------------------|----------------------------------------------------------------------|
| ii. Retained Earnings | | |
| Accumulated losses at the beginning of the year | (53,890) | (56,746) |
| Profit/(Loss) after income tax | 2,485 | (454) |
| Dividend provided for or paid | (795) | (795) |
| Accumulated losses at the end of the year | <u>(52,200)</u> | <u>(57,995)</u> |
| iii. Statement of Financial Position | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 3,618 | 2,208 |
| Trade and other receivables | 7,659 | 4,637 |
| Inventories | 10,622 | 3,971 |
| Derivative | 110 | 110 |
| Other assets | 90 | 71 |
| TOTAL CURRENT ASSETS | <u>22,099</u> | <u>10,997</u> |
| NON-CURRENT ASSETS | | |
| Deferred tax assets | 2,387 | 2,050 |
| Property, plant and equipment | 13,600 | 10,175 |
| Intangible assets | 663 | 663 |
| Other non-current assets | 557 | 11,476 |
| TOTAL NON-CURRENT ASSETS | <u>17,207</u> | <u>24,364</u> |
| TOTAL ASSETS | <u>39,306</u> | <u>35,361</u> |
| CURRENT LIABILITIES | | |
| Trade and other payables | 5,867 | 1,829 |
| Short-term borrowings | 5,796 | 442 |
| Employee benefits | 960 | 675 |
| Deferred income | 64 | - |
| Short-term provisions | 1,175 | 462 |
| TOTAL CURRENT LIABILITIES | <u>13,862</u> | <u>3,408</u> |
| NON-CURRENT LIABILITIES | | |
| Long-term borrowings | 154 | 13,792 |
| Employee benefits | 427 | 348 |
| Deferred tax liabilities | 1,474 | 991 |
| TOTAL NON-CURRENT LIABILITIES | <u>2,055</u> | <u>15,131</u> |
| TOTAL LIABILITIES | <u>15,917</u> | <u>18,539</u> |
| NET ASSETS | <u>23,389</u> | <u>16,822</u> |
| EQUITY | | |
| Issued capital | 73,077 | 73,077 |
| Reserves | 2,512 | 1,740 |
| Accumulated losses | (52,200) | (57,995) |
| | <u>23,389</u> | <u>16,822</u> |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 16: Property, Plant and Equipment

| | Consolidated Group | |
|-------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| LAND AND BUILDINGS | | |
| Freehold land at: | | |
| - independent valuation 2010 | 6,440 | 6,440 |
| Total Land | 6,440 | 6,440 |
| Buildings at cost | 4,524 | 4,418 |
| Less accumulated depreciation | (1,393) | (1,283) |
| Total Buildings | 3,131 | 3,135 |
| Total Land and Buildings | 9,571 | 9,575 |
| PLANT AND EQUIPMENT | | |
| Plant & equipment at cost | 9,479 | 8,944 |
| Accumulated depreciation | (6,808) | (6,104) |
| | 2,671 | 2,840 |
| Leased plant and equipment | | |
| Capitalised leased assets | 632 | 503 |
| Accumulated depreciation | (232) | (230) |
| | 400 | 273 |
| Motor vehicles and office equipment | 367 | 356 |
| Accumulated depreciation | (322) | (310) |
| | 45 | 46 |
| Plant under construction | 913 | 679 |
| Total Plant and Equipment | 4,029 | 3,838 |
| Total Property, Plant and Equipment | 13,600 | 13,413 |

The Group's land was revalued by Directors at 31 March 2010 and 12 April 2010 based on independent assessment by independent valuers. Valuations were made on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to an asset revaluation reserve in shareholders' equity.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 16: Property, Plant and Equipment (cont'd)

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Freehold Land | Buildings | Plant and Equipment | Leased Plant and Equipment | Motor Vehicles and Office Equipment | Plant Under Construction | Total |
|---------------------------|------------------|--------------|------------------------|----------------------------------|----------------------------------------------|--------------------------------|---------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Consolidated Group | | | | | | | |
| Balance at 1 July 2009 | 2,786 | 3,244 | 3,128 | 284 | 26 | 420 | 9,888 |
| Additions | - | - | 401 | 78 | 31 | 259 | 769 |
| Revaluation increments | 3,654 | - | - | - | - | - | 3,654 |
| Disposal | - | - | (15) | (19) | - | - | (34) |
| Depreciation expense | - | (109) | (674) | (70) | (11) | - | (864) |
| Balance at 30 June 2010 | <u>6,440</u> | <u>3,135</u> | <u>2,840</u> | <u>273</u> | <u>46</u> | <u>679</u> | <u>13,413</u> |
| Additions | - | 74 | 567 | 239 | 12 | 234 | 1,126 |
| Transferred | - | 32 | (32) | - | - | - | - |
| Disposals | - | - | - | (28) | - | - | (28) |
| Depreciation expense | - | (110) | (704) | (84) | (13) | - | (911) |
| Balance at 30 June 2011 | <u>6,440</u> | <u>3,131</u> | <u>2,671</u> | <u>400</u> | <u>45</u> | <u>913</u> | <u>13,600</u> |

**Consolidated Group
2011 2010
\$000 \$000**

b. Historical Cost

If land and buildings were stated at historical cost, amounts would be as follows:

| | | |
|--------------------------|--------------|--------------|
| Cost | 7,310 | 7,204 |
| Accumulated depreciation | (1,393) | (1,283) |
| Net book value | <u>5,917</u> | <u>5,921</u> |

Note 17: Intangible Assets

**Consolidated Group
2011 2010
\$000 \$000**

Hydroproc Process

| | | |
|------------------------|------------|------------|
| Cost | 2,217 | 2,217 |
| Accumulated impairment | (1,554) | (1,554) |
| Net carrying value | <u>663</u> | <u>663</u> |

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 17: Intangible Assets (cont'd)

Hydroproc process

The Hydroproc process is the technology applied by the Group in its operations. The Hydroproc process is classified as an indefinite life asset as the Group's cash-generating units are applying the technology to process the industrial residue and produce chemicals therefrom. The Hydroproc process has been under continuous development to enhance its capability and efficiency.

The recoverable amount of the Hydroproc process was estimated based on its value in use and was determined by discounting the future cash flows expected to be generated from the continuing use of the Hydroproc process by the cash-generating units of the Group and was based on the following key assumptions:

- actual operating results;
- the 2012 business plan; and
- a five percent growth rate for cash flows for a further nineteen-year period.

A pre-tax discount rate of 10.7 percent (2010: 10.6 percent) has been used in discounting the projected cash flows. The recoverable amount of the unit was determined to be higher than its carrying amount and no additions and impairments were applicable for the financial year.

For the value of the Hydroproc process to be impaired, the key assumptions would have to change significantly, including:

- a loss position in the current financial year;
- a negative growth rate for future years; and
- the discount rate would have to increase significantly.

The directors do not consider the above changes to be foreseeable.

Note 18: Other Non-Current Assets

| | Consolidated Group | |
|-------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| NON-CURRENT | | |
| Exploration expenditure capitalised | | |
| - exploration and evaluation phases | 557 | 557 |
| Total exploration expenditure | 557 | 557 |

The Stanton Prospect

The Stanton cobalt project is located in the Northern Territory and comprises a mining lease with an area of 1,650 ha.

Intensive exploration programs in the form of geophysical and geochemical surveys and drillings have been conducted by various parties since 1990. An indicated resource of 700,000 tonnes of cobalt mineral was estimated with inferred resources of over one million tonnes.

The recoverable amount of this cash-generating unit was estimated to be higher than the carrying amount of the unit and no impairment was required. The recoverability of the carrying amount of the exploration and evaluation asset is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

| | Consolidated Group | |
|------------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Note 19: Trade and Other Payables | | |
| CURRENT | | |
| Unsecured liabilities | | |
| Trade payables | 3,723 | 3,282 |
| Sundry payables and accrued expenses | 2,144 | 5,429 |
| | 5,867 | 8,711 |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

| | Consolidated Group | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Note 20: Borrowings | | |
| CURRENT | | |
| Unsecured liabilities | | |
| Convertible notes | 275 | - |
| | 275 | - |
| | | |
| Secured liabilities | | |
| Bank loans | 5,333 | 1,835 |
| Lease liabilities | 188 | 335 |
| | 5,521 | 2,170 |
| | | |
| Total current borrowings | 5,796 | 2,170 |
| | | |
| NON-CURRENT | | |
| Unsecured liabilities | | |
| Convertible notes | - | 688 |
| | - | 688 |
| | | |
| Secured liabilities | | |
| Lease liabilities | 154 | 154 |
| Total non-current liabilities | 154 | 842 |
| | | |
| Total borrowings | 5,950 | 3,012 |
| | | |
| a. Total current and non-current secured liabilities: | | |
| Bank loans | 5,333 | 1,835 |
| Leased liabilities | 342 | 489 |
| | 5,675 | 2,324 |
| | | |
| b. The carrying amount of non-current assets pledged as security are: | | |
| Freehold land and buildings | 9,571 | 9,575 |
| Leased plant & equipment | 400 | 273 |
| Floating charges over assets | 29,335 | 29,486 |
| | 39,306 | 39,334 |
| | | |
| c. Convertible notes | | |
| Carrying amount of liability at 30 June | 275 | 688 |
| | | |
| All notes are convertible, at the option of the holders, to ordinary shares of the Company at the price of 8 cents per share 12 months after the issue date and before their maturity. Unconverted notes become repayable on maturity. The total number of ordinary shares to be issued to convertible notes holders if they exercise the options to convert is 3,750,000 shares. | | |
| | | |
| Movement in convertible notes: | | |
| Balance at beginning of year | 688 | 605 |
| Issued of convertible notes net of cost and equity portion | - | 83 |
| Repayment net of costs and equity portion | (413) | - |
| Balance at end of year | 275 | 688 |

During the financial year, the Company, on the request of two convertible notes holders, repaid \$450,000 before their maturity.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 20: Borrowings (cont'd)

d. Convertible notes schedule

The maturity profile of convertible notes on issue is as follows:

| Maturity Dates | Interest Rates (%) | Consolidated Group | |
|----------------|-----------------------|--------------------|---------------|
| | | 2011 \$000 | 2010 \$000 |
| 31/8/2011 | 9 | 200 | 200 |
| 5/9/2011 | 9 | - | 250 |
| 9/9/2011 | 9 | - | 200 |
| 15/3/2012 | 10 | 100 | 100 |
| | | 300 | 750 |

e. Collateral Provided

The bank loans are secured over registered second fixed and floating charges over all assets of Hydromet Corporation Limited and first fixed and floating charges over the assets of Hydromet Operations (Southern) Limited, Mineral Estates Pty Limited, Hydromet Operations Limited and Minmet Operations Pty Limited. Covenants imposed by the bank require the Group to maintain interest coverage of not less than two times and the capital ratio at a minimum of 30%. The Group has complied with these requirements.

Lease liabilities are secured by the underlying leased assets.

Note 21: Employee Benefits

| | Consolidated Group | |
|-------------------------------------|--------------------|---------------|
| | 2011 \$000 | 2010 \$000 |
| CURRENT | | |
| Salaries and wages accrued | 99 | 81 |
| Liability for annual leave | 474 | 498 |
| Liability for long service leave | 312 | 275 |
| Liability for retirement benefits | 75 | - |
| Total current employee benefits | 960 | 854 |
| NON-CURRENT | | |
| Liability for long service leave | 157 | 128 |
| Liability for retirement benefit | 270 | 240 |
| Total non-current employee benefits | 427 | 368 |
| Total employee benefits | 1,387 | 1,222 |

a. Defined contribution superannuation funds

The Group makes contributions to several defined contribution funds nominated by the employees for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The funds are administered by independent corporate trustees.

b. Retirement benefit obligations

All directors of the Company are entitled to receive a post-employment cash benefit at the date of their retirement as director of the Company. The benefit is calculated on \$15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the *Corporations Act 2001*.

The amounts recognised in profit or loss are as follows:

| | Consolidated Group | |
|--------------------------------------|--------------------|---------------|
| | 2011 \$000 | 2010 \$000 |
| Contribution to superannuation funds | 619 | 655 |
| Present value of retirement benefit | 105 | 80 |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 22: Tax

| | Consolidated Group | |
|---------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| CURRENT | | |
| Income tax receivable/(payable) | - | - |

NON-CURRENT

| | Opening Balance | Charged to Income | Charged directly to Equity | Closing Balance |
|-----------------------------------------------|----------------------------|------------------------------|-------------------------------------------|----------------------------|
| | \$000 | \$000 | \$000 | \$000 |
| Consolidated Group | | | | |
| Deferred Tax Liabilities | | | | |
| Property, plant and equipment – tax allowance | (297) | - | (1,097) | (1,394) |
| Inventory | (188) | (600) | - | (788) |
| Accrued income | (253) | 253 | - | - |
| Other | (3) | (56) | - | (59) |
| Balance at 30 June 2010 | (741) | (403) | (1,097) | (2,241) |
| Property, plant and equipment – tax allowance | (1,394) | - | - | (1,394) |
| Inventory | (788) | 788 | - | - |
| Other | (59) | (21) | - | (80) |
| Balance at 30 June 2011 | (2,241) | 767 | - | (1,474) |
| Deferred Tax Assets | | | | |
| Property, plant and equipment – impairment | 64 | 19 | - | 83 |
| Provision | 689 | 340 | - | 1,029 |
| Accrued expenses | 18 | 1 | - | 19 |
| Income received in advance | 148 | 620 | - | 768 |
| Other | 51 | (30) | - | 21 |
| Tax loss carry-forward | 2,718 | (413) | - | 2,305 |
| Balance at 30 June 2010 | 3,688 | 537 | - | 4,225 |
| Property, plant and equipment – impairment | 83 | 1 | - | 84 |
| Provision | 1,029 | (275) | 29 | 783 |
| Accrued expenses | 19 | 1 | - | 20 |
| Income received in advance | 768 | (768) | - | - |
| Other | 21 | 24 | - | 45 |
| Tax loss carry-forward | 2,305 | (850) | - | 1,455 |
| Balance at 30 June 2011 | 4,225 | (1,867) | 29 | 2,387 |

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

- tax losses: operating losses \$99,000 (2010: \$99,000).
- tax losses: unrealised capital losses \$371,000 (2010: \$347,000).

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 23: Provisions

| | Site restoration | Waste disposal | Price adjustment on sales | Total |
|--------------------------------|-----------------------------|---------------------------|------------------------------------------|--------------|
| | \$000 | \$000 | \$000 | \$000 |
| Consolidated Group | | | | |
| Opening balance at 1 July 2010 | 560 | 298 | 1,431 | 2,289 |
| Amounts used | - | - | (1,215) | (1,215) |
| Additional provision | - | 101 | - | 101 |
| Balance at 30 June 2011 | <u>560</u> | <u>399</u> | <u>216</u> | <u>1,175</u> |

| | Consolidated Group | |
|-------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Analysis of Total Provisions | | |
| Current | 1,175 | 2,289 |
| Non-current | - | - |
| | <u>1,175</u> | <u>2,289</u> |

Site restoration

A provision of \$560,000 was made in previous financial years in respect of environmental clean-up costs of a disposal pond located at the site of a subsidiary. The removal of the pond will improve the value of the site and it is the intention of the Group to carry out the work once resources are available.

Waste disposal

Hazardous by-products are produced during the manufacturing processes carried out by HydroMet Operations (Southern) Limited, MinMet Operations Pty Limited and HydroMet Operations Limited. The subsidiaries have established strict procedures to ensure that all such hazardous by-products are disposed of safely.

Provisions have been made for the estimated costs of disposal of these by-products on hand during the previous financial years. These provisions are sufficient to meet the disposal requirements of current environmental legislation. However, these operations are subject to rapidly changing environmental legislation in various jurisdictions and potential future obligations to meet changing environmental legislation. The directors are not aware of any impending changes to the disposal requirements or of any current breaches of legislation.

Price adjustment on future sales

The Group engaged in sales of metal products with selling price subject to assay confirmation on arrival of the products at customers' works and the market price of the products quoted on agreed future quotation period. Provision for price adjustment on yet to agree assay and selling price transactions are recognised when the market price of the metal products are different from the provisional invoice price as at the reporting date. The provision was decreased by \$1,215,000 during the financial year.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 24: Issued Capital

| | Consolidated Group | | Consolidated Group | |
|------------------------------------------|---------------------------|-------------|---------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| | No. | No. | \$000 | \$000 |
| Fully paid ordinary shares | 454,512,280 | 454,512,280 | 73,077 | 73,077 |
| a. Ordinary Shares | | | | |
| At the beginning of the reporting period | 454,512,280 | 382,762,280 | 73,077 | 70,239 |
| Shares issued during the year | | | | |
| - 21 December 2009 | - | 53,750,000 | - | 2,122 |
| - 15 February 2010 | - | 18,000,000 | - | 716 |
| At the end of the reporting period | 454,512,280 | 454,512,280 | 73,077 | 73,077 |

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Options

- i. For information relating to the Hydromet Corporation Limited employee option plans, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 29 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 29 Share-based Payments.

c. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital, convertible notes and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's gearing ratio remains between 20% and 40%. The gearing ratios for the year ended 30 June 2011 and 30 June 2010 are as follows:

| | Note | Consolidated Group | |
|--------------------------------|-------------|---------------------------|--------------|
| | | 2011 | 2010 |
| | | \$000 | \$000 |
| Total borrowings | 19,20 | 11,817 | 11,723 |
| Less cash and cash equivalents | 10 | (3,618) | (4,450) |
| Net debt | | 8,199 | 7,273 |
| Total equity | | 23,389 | 21,799 |
| Total capital | | 31,588 | 29,072 |
| Gearing ratio | | 26% | 25% |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 25: Capital and Leasing Commitments

| | Note | Consolidated Group | |
|-----------------------------------------|-------------|---------------------------|--------------|
| | | 2011 | 2010 |
| | | \$000 | \$000 |
| a. Finance Lease Commitments | | | |
| Payable – minimum lease payments | | | |
| - not later than 12 months | | 205 | 360 |
| - between 12 months and 5 years | | 170 | 159 |
| Minimum lease payments | | 375 | 519 |
| Less future finance charges | | (33) | (30) |
| Present value of minimum lease payments | 20 | 342 | 489 |

The Group motor vehicle finance lease liabilities of \$273,000 (2010: \$174,000) expire from one to four years. At the end of the lease term the Group is entitled to claim ownership of the assets after paying the residual values.

The Group plant and equipment finance lease liability of \$69,000 (2010: \$315,000) expires within a year. At the end of the lease term the Group is entitled to claim ownership of the assets.

b. Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

| | Consolidated Group | |
|----------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Payable – minimum lease payments | | |
| - not later than 12 months | 4 | 8 |
| - between 12 months and 5 years | 3 | 37 |
| Minimum lease payments | 7 | 45 |

The Group lease a number of small items of capital equipment under operating lease. The leases typically run for a period of 1 to 2 years. None of the lease agreements include contingent rentals.

c. Capital Expenditure Commitments

Capital expenditure commitments contracted for:

| | Consolidated Group | |
|----------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Plant and equipment purchase | | |
| Payable not later than 12 months | 38 | 352 |

Note 26: Contingent Liabilities

Estimates of the potential financial effect of contingent liabilities that may become payable:

Royalty Payment

Under the terms of a royalty agreement entered into by a subsidiary, the Group has an obligation to pay a total of \$600,000 (2010: \$600,000) to two parties if the Group decides to commence mining on Stanton Prospect. A further royalty payment of 1% of the net smelter return generated from the sale of any mineral produced is payable to a party for a period of 10 years from the date on which commercial mining commences. It is not practicable to estimate the potential liability for royalty payment at this stage.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 27: Operating Segments

Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the nature of feed material;
- the manufacturing process;
- the type or class of customer for the products or service; and
- any external regulatory requirements.

Types of products and services by segment

(i) Used batteries recycling

The used battery recycling segment involves the breaking of used lead acid battery and recycling all components within. The major components include lead, plastic and acid. The lead and plastic are distributed to secondary lead smelters and plastic recyclers respectively for production of lead metal and recycled plastic. The acid is consumed internally for other manufacturing processes or neutralised for disposal.

The used batteries recycling is reported as one reportable segment as it processes used lead acid batteries and distributes the products to similar types of customers and it is subject to a certain regulatory environment.

(ii) Residue treatment

The residue treatment segment involves the treatment of industrial residues and production of chemical and metal products. All products produced are aggregated as one reportable segment as they are manufactured from similar types of feed materials. The products are similar in nature and distributed to similar types of customers.

The residue treatment operations are subject to a similar regulatory environment. The residue treatment is reported as one reportable segment as it treats industrial residual and distributes the product to similar types of customers and is subject to a certain regulatory environment.

Both used batteries recycling and residue treatment segments are utilising the Group's "Hydroproc Process" in their operations.

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

(b) Inter-segment transactions

An internally determined transfer price is set for all intersegment sales. This price is reviewed regularly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Corporate charges are not allocated to reporting segments. The Board of Directors believes this policy provides a better measure in assessing the segment performance and control of corporate overheads.

Intersegment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. No interest is charged on intersegment loans. If intersegment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 27: Operating segments (cont'd)

(c) Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, intangible assets have not been allocated to operating segments.

(d) Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

(e) Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities;
- other financial liabilities;
- retirement benefit obligations;
- intangible assets;
- exploration expenditure capitalised; and
- discontinuing operations.

(i) Segment performance

| | Used Battery | | Residue Treatment | | Total | |
|-------------------------------------------------------------------------------|---------------|---------------|-------------------|---------------|---------------|---------------|
| | 2011 \$000 | 2010 \$000 | 2011 \$000 | 2010 \$000 | 2011 \$000 | 2010 \$000 |
| Revenue | | | | | | |
| External sales | 38,540 | 28,573 | 30,035 | 14,450 | 68,575 | 43,024 |
| Inter-segment sales | 346 | 602 | - | - | 346 | 602 |
| Total segment revenue | <u>38,886</u> | <u>29,175</u> | <u>30,035</u> | <u>14,450</u> | <u>68,921</u> | <u>43,625</u> |
| <i>Reconciliation of Segment Revenue to Group Revenue</i> | | | | | | |
| Corporate revenue | | | | | 133 | 127 |
| Inter-segment elimination | | | | | (346) | (602) |
| Total Group Revenue | | | | | <u>68,708</u> | <u>43,150</u> |
| Segment net profit/(loss) before tax | 1,673 | 1,618 | 4,221 | 209 | 5,894 | 1,827 |
| <i>Reconciliation of Segment Result to Group Net Profit/(Loss) Before Tax</i> | | | | | | |
| Amounts not included in segment result but reviewed by Board | | | | | | |
| - Corporate charges | | | | | (2,309) | (2,342) |
| Net Profit/(Loss) Before Tax from Continuing Operations | | | | | <u>3,585</u> | <u>(515)</u> |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 27: Operating Segments (cont'd)

(ii) Segment assets

| | Used battery | | Residue treatment | | Total | |
|----------------------------------------|---------------|---------------|-------------------|---------------|---------------|---------------|
| | 2011 \$000 | 2010 \$000 | 2011 \$000 | 2010 \$000 | 2011 \$000 | 2010 \$000 |
| Segment assets | 20,310 | 21,215 | 27,561 | 24,145 | 47,871 | 45,360 |
| Segment asset increases for the period | | | | | | |
| - capital expenditure | 577 | 490 | 543 | 183 | 1,120 | 673 |

Reconciliation of Segment Assets to Group Assets

| | | | | | | |
|---------------------------|--|--|--|--|----------|----------|
| Inter-segment elimination | | | | | (12,219) | (12,718) |
| Unallocated assets: | | | | | | |
| - Intangibles | | | | | 663 | 663 |
| - Deferred tax assets | | | | | 1,683 | 2,117 |
| - Others | | | | | 1,308 | 3,912 |
| Total group assets | | | | | 39,306 | 39,334 |

(iii) Segment liabilities

| | | | | | | |
|---------------------|--------|--------|--------|--------|--------|--------|
| Segment liabilities | 19,053 | 21,044 | 12,328 | 11,860 | 31,381 | 32,904 |
|---------------------|--------|--------|--------|--------|--------|--------|

Reconciliation of Segment Liabilities to Group Liabilities

| | | | | | | |
|----------------------------|--|--|--|--|----------|----------|
| Inter-segment elimination | | | | | (16,546) | (16,974) |
| Unallocated liabilities: | | | | | | |
| - Deferred tax liabilities | | | | | 6 | 5 |
| - Others | | | | | 1,076 | 1,600 |
| Total group liabilities | | | | | 15,917 | 17,535 |

(iv) Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

| | 30 June 2011 \$000 | 30 June 2010 \$000 |
|---------------|--------------------------|--------------------------|
| Australia/NZ | 15,988 | 8,159 |
| Europe | 34,573 | 25,498 |
| North America | 761 | 3,007 |
| Asia | 17,386 | 6,486 |
| Total revenue | 68,708 | 43,150 |

(v) Assets by geographical region

The location of segment asset by geographical location of the assets is disclosed below:

| | | |
|-----------|--------|--------|
| Australia | 39,306 | 39,334 |
|-----------|--------|--------|

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 27: Operating Segments (cont'd)

(vi) Major customers

The Group has a number of customers to whom it provides both products and services. The Group supplies to a single external customer in the used battery recycling segment which accounts for 20% of external revenue (2010: 33%). The next most significant client accounts for 18% (2010: 25%) of external revenue.

(vii) Comparatives

As disclosed in Note 1(r), comparative information of the used battery segment has been restated as follows:

1. The segment net profit before income tax decreased by \$1,218,000 to \$1,618,000.
2. The Group total net loss before tax from continuing operations decreased by \$373,000 to \$515,000.
3. The segment assets decreased by \$853,000 to \$21,215,000.

Note 28: Cash Flow Information

| | Consolidated Group | |
|-------------------------------------------------------------------------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| a. Reconciliation of Cash Flows from Operations with Profit after Income Tax | | |
| Profit/(Loss) after income tax | 2,485 | (376) |
| Non-cash flows in profit: | | |
| Depreciation | 912 | 864 |
| Effect of exchange rate fluctuations on cash held | 52 | 211 |
| Unrealised (loss)/gain on derivatives | (67) | 51 |
| Equity-settled share-based payment transaction | - | 261 |
| (Profit)/Loss on sale of property, plant and equipment | 3 | (1) |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | 2,728 | (5,709) |
| (Increase)/decrease in inventories | (5,182) | (2,215) |
| (Increase)/decrease in deferred tax assets | 1,838 | (537) |
| Increase/(decrease) in trade and other payables | (2,821) | 4,778 |
| Increase/(decrease) in deferred taxes liabilities | (767) | 403 |
| Increase/(decrease) in provisions | (967) | 1,133 |
| Cash flow from operations | (1,786) | (1,137) |

b. Non-cash Financing

During the year the consolidated group acquired motor vehicle and equipment with an aggregate value of \$240,000 (2010: \$81,000) by means of finance leases.

c. Credit Standby Arrangements with Bank

| | Consolidated Group | |
|--------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Overdraft facility | 500 | 500 |
| Amount utilised | - | - |
| Amount unutilised | 500 | 500 |

Bank overdraft facility is arranged with the principal banker of the Group with general terms and conditions being set. The facility is subject to half-yearly review. Interest rate is variable and subject to adjustment.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 28: Cash Flow Information (cont'd)

d. Loan facility

| | Consolidated Group | |
|----------------------|---------------------------|--------------|
| | 2011 | 2010 |
| | \$000 | \$000 |
| Import loan facility | 5,500 | 3,500 |
| Amount utilised | (5,333) | (1,835) |
| Amount unutilised | 167 | 1,665 |

Import loan facility is arranged with the principal banker of the Group with general terms and conditions being set. The facility is subject to half-yearly review. Interest rate is variable and subject to adjustment. The loan was drawn down in USD and at balance date the interest rate was 2.3% (2010: 3.15%).

Finance is provided under all facilities provided the consolidated group has not breached any borrowing requirements and the required capital ratio are met.

Note 29: Share-based Payments

The Company has an Employee Share Option Plan (ESOP) and Executive Share Option Plan (ExSOP) approved by the shareholders at the Company's annual general meeting on 29 September 2000. The ESOP is available to all eligible employees to receive options over ordinary shares for no consideration. Each option is convertible to one ordinary share. The exercise price of the option is determined in accordance with the rules of the plan. The entitlement of each employee was determined by the board. To be eligible, employees must be employed by any entity in the Group at the time of grant. Share options are issued in the name of the participating employee. All options are to be settled by physical delivery of shares.

On 3 December 2007, under the ESOP the Company granted 7,990,000 options to 41 employees and 12,010,000 options over ordinary shares to 6 key management personnel for no consideration. 50% of these options vesting on grant date; 25% vesting on 1 July 2008 and 25% vesting on 1 July 2009. The options expire on the earlier of 30 June 2010 or termination of the individual's employment with the Group. All options issued expired on 30 June 2010. Further details of these options are provided in the Directors' Report. The options held no voting or dividend rights.

The options are issued with a strike price that is the average market price of the underlying shares determined over the previous 5 trading days.

A summary of the movements of company options issued as share-based payment is as follows:

| | Number | Weighted average exercise price |
|-----------------------------------------------|---------------|--------------------------------------------|
| Options outstanding as at 30 June 2009 | 18,280,000 | \$0.1676 |
| Expired | (18,280,000) | \$0.1676 |
| Options outstanding as at 30 June 2010 | - | - |
| Options outstanding as at 30 June 2011 | - | - |

No options were granted or exercised during the year.

Included under employee benefits expenses in the statement of comprehensive income is \$Nil (2010:\$261,000) which relates to equity-settled share-based payment transactions.

Note 30: Events after the Reporting Period

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the consolidated group, the results of those operations or the state of affairs of the consolidated group in future financial years.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 31: Related Party Transactions

Related Parties

a. The Groups main related parties are as follows:

Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 6: Interest of Key Management Personnel (KMP).

b. Transaction with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

| | Consolidated Group | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Key management personnel | | |
| A controlled entity sold lead products to Jiangsu Chunxing Alloy Co. Ltd. Mr CM Yang, a director, has significant influence over this company's operations. | - | 152,963 |
| Consultation fees were paid to Lenvat Pty Limited for providing advice on issue of debentures and placement of Company's shares. Mr. TR Allen has significant influence over Lenvat Pty Limited. | - | 6,500 |

c. Amount payable to related parties

Trade and other payable

Unsecured trade credit provided by key management personnel on arms length basis.

No interest is charged on outstanding balance and is payable on 30 days credit term.

| | | |
|-----------------------|----------|---------|
| Beginning of the year | 5,861 | - |
| Receiving of services | 12,116 | 14,843 |
| Payments | (14,395) | (8,982) |
| End of the year | 3,582 | 5,861 |

Note 32: Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, trade receivable and payable, loans from bank, leases and derivatives.

Financial Risk Management Policies

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The senior management team is responsible for developing and monitoring the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk. The management team meet on a weekly basis and reports regularly to the board of directors on its activities.

The Group's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performances. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 32: Financial Risk Management (cont'd)

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity price risk.

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 80% of the invoice amount paid upon presentation of the shipping document, 10% on arrival of goods at customer's site and the balance of 10% upon the agreement of final assay of the goods sold.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterpart, the risk may be further managed through title retention clauses over goods.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of reporting period, excluding the value of any collateral or other security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position. Credit risk also arises for the parent entity through the provision of financial guarantees, as approved at Board level, given to parties securing the liabilities of certain subsidiaries (refer Note 2 for details).

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographical basis, the Group has significant credit risk exposures to Europe and Asia Pacific given the major customers are located in those regions. Details with respect to credit risk of trade and other receivables are provided in Note 11.

b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- using derivatives that are only traded in highly liquid markets;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts, if any, have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balance of overdrafts outstanding at year-end could become repayable within 12 months. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

All financial liabilities and financial assets mature within one year, other than finance lease liabilities which mature in one to five years (see Note 25 for details).

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 32: Financial Risk Management (cont'd)

c. Market risk

i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed by using fixed rate debt. It is the policy of the Group, as far as practical, to keep its borrowing on fixed interest rates term. At 30 June 2011 100% of group debt is fixed rate.

ii. Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held in US dollar, fluctuations in the US dollar may impact on the Group's financial results unless those exposures are appropriately hedged.

It is the Group policy that hedging, as a percentage of net foreign exchange rate exposure, be maintained within established limits. Forward exchange contracts commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates. The Group has a policy of requiring that, subject to the movement of the foreign currency, forward exchange contracts be entered into where future commitments are entered into requiring settlement in the future. Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimised.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

| | Net financial assets/(liabilities) in AUD \$000 | | | | | |
|-----------------------------|--------------------------------------------------------|----------------|----------------------|--------------|--------------|----------------------|
| | AUD | USD | Total AUD | AUD | USD | Total AUD |
| | 2011 | | | 2010 | | |
| Consolidated Group | | | | | | |
| Trade and other receivables | 893 | 6,766 | 7,659 | 1,199 | 9,248 | 10,477 |
| Loans and borrowings | (617) | (5,333) | (5,950) | (1,177) | (1,835) | (3,012) |
| Cash and cash equivalents | 2,570 | 1,048 | 3,618 | 3,359 | 1,091 | 4,450 |
| Trade and other payables | (2,293) | (3,574) | (5,867) | (3,776) | (6,365) | (10,141) |
| Balance sheet exposure | <u>553</u> | <u>(1,093)</u> | <u>(540)</u> | <u>(395)</u> | <u>2,139</u> | <u>1,744</u> |

iii. Forward Exchange Contracts

Due to highly probable USD receivable from forecast sales transactions to minimise its exposure, the Group has no open forward exchange contracts at the end of the reporting period.

The following table summarises the notional amounts of the Group's commitments in relation to forward exchange contracts. The notional amounts do not represent amounts exchanged by the transaction counterparties and are therefore not a measure of the exposure of the Group through the use of these contracts.

| | Notional amount | | Average Exchange Rate | |
|---------------------------------|------------------------|-----------------------|------------------------------|--------------------|
| | 2011 \$000 | 2010 \$000 | 2011 \$ | 2010 \$ |
| <i>Buy AUD/Sell USD</i> | | | | |
| Settlement – less than 6 months | - | 256 | - | 0.8111 |

Forward exchange contracts are measured at fair value with gains and losses taken to the cash flow hedge reserve until such time as they are included in the costs of hedged inventory purchases or other asset acquisitions.

There are no movements in cash flow hedge reserves attributable to foreign exchange contracts.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 32: Financial Risk Management (cont'd)

iv. Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is exposed to commodity price risk through its used lead acid battery recycling and residue treatment operations. The revenue to be received on sale of metal and chemical products is determined at an agreed market measure at an agreed future date, and depends on the assay quantity of materials delivered. To minimise the exposure on price fluctuation, derivative commodity swap contracts may be used when available to return realised prices to the relevant international pricing target. Through commercial arrangement, the Group also minimises its exposure by matching suppliers' and customers' market measures to the same future dates. Commodity future markets and economic forecasts are constantly monitored to determine whether to implement a hedging program.

The following table summarises the notional amounts of the Group's commitment in commodity hedge contracts:

| | Notional Amounts | | Average Price | |
|---------------------------------------------------------|------------------|---------------|-----------------|-----------------|
| | 2011 \$000 | 2010 \$000 | 2011 US\$/mt | 2010 US\$/mt |
| Consolidated Group | | | | |
| Receive fixed and pay floating price of lead Settlement | | | | |
| - less than 6 months | 5,084 | - | 2,542 | - |

d. Sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, exchange rates and commodity prices. The table indicates the impact on how profit and equity values reported at the end of reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Consolidated Group | |
|--------------------------------|--------------------|-----------------|
| | Profit \$000 | Equity \$000 |
| Year ended 30 June 2011 | | |
| +/- 1% in interest rates | +/-36 | +/-36 |
| +/- 10% in \$A/\$US | +/-109 | +/-109 |
| +/- 10% in lead price/tonne | - | - |
| Year ended 30 June 2010 | | |
| +/- 1% in interest rates | +/-44 | +/-44 |
| +/- 10% in \$A/\$US | +/-194 | +/-194 |
| +/- 10% in lead price/tonne | +/-583 | +/-583 |

Note 33: Reserves

a. Hedging Reserve

The hedging reserve records revaluation of items designated as hedges.

b. Compound Instrument Equity Reserve

The compound instrument equity reserve comprises the equity portion of the convertible notes issued by the Company. The initial carrying amount of a compound financial instrument is allocated to its equity and liability components: the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.

c. Equity Compensation Reserve

The equity compensation reserve comprises the fair value of the options issued to employees as share based payment.

d. Asset Revaluation Reserve

The asset revaluation reserve records revaluation of non-current assets. Under certain circumstances dividends can be declared from this reserve.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Note 34: Company Details

The register office of the company is:

Hydromet Corporation Limited

Lot 3 Five Island Road

Unanderra, NSW 2526

The principal places of business are:

Hydromet Operations (Southern) Limited

Lot 3 Five Island Road

Unanderra NSW 2526

Minmet Operations Pty Limited

25 School Drive

Tomago NSW 2322

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2011**

1. In the directors' opinion:
 - (a) the financial statements and notes set out on pages 26 to 66 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
 - (c) at the date of the declaration, there are reasonable grounds to believe that the parties to the deed of cross guarantee identified in Note 14 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 14.
2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.
3. The directors have been given the declarations by the chief executive officer and chief financial officer for the year ended 30 June 2011 required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Gregory Wrightson
Director
25 August 2011



HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT

To the members of Hydromet Corporation Limited,

Report on the Financial Report

We have audited the accompanying consolidated financial report of Hydromet Corporation Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both the company and the Hydromet Group ("the consolidated entity") as set out on pages 26 to 67. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This Auditor's Report also relates to the financial report and remuneration report of Hydromet Corporation Limited and the Hydromet Group for the financial year ended 30 June 2011 included on the Hydromet Corporation Limited website. The company's directors are responsible for the integrity of the Hydromet Corporation Limited website. We have not been engaged to report on the integrity of this website. The audit report refers only to the financial report and remuneration report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report in an electronic presentation of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Hydromet Corporation Limited on 25 August 2011, would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

- (a) the financial report of Hydromet Corporation Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 24 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Hydromet Corporation Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'A. J. Newhouse'.

Andrew J Newhouse
Partner
HLB Newhouse
Wollongong, 25 August 2011

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES

Additional information for listed public companies

The following information is current as at 22 August 2011.

1. Shareholding

a. Distribution of Shareholders

| Category (size of holding): | Number | |
|-----------------------------|-----------------|-------------------|
| | Ordinary shares | Convertible notes |
| 1 - 1,000 | 242 | - |
| 1,001 - 10,000 | 498 | - |
| 10,001 - 100,000 | 888 | 1 |
| 100,001 and over | 466 | 1 |
| | 2,094 | 2 |

b. The number of shareholdings held in less than marketable parcel is 806.

c. The names of the substantial shareholders listed in the holding company's register are:

| Shareholder | Number Ordinary shares |
|--------------------------------------------------|---------------------------|
| Jiangsu New Chunxing Resource Recycling Co., Ltd | 49,924,000 |
| Chemmet Pty Limited | 29,309,498 |
| Bradleys Polaris Pty Ltd | 28,500,000 |

d. Voting rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands,

Convertible notes

- There are no voting rights attached to convertible notes.

e. 20 Largest Shareholders – Ordinary Shares

| Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|--------------------------------------------------------------------------------------|----------------------------------------------------|-----------------------------------------|
| 1 Jiangsu New Chunxing Resource Recycling Co. Ltd. | 49,924,000 | 10.98 |
| 2 Bradleys Polaris Pty Ltd <Bradley S/F A/C> | 29,854,001 | 6.57 |
| 3 Chemmet Pty Limited | 21,131,998 | 4.65 |
| 4 Penswood Pty Ltd <Penswood Super Fund Account> | 20,200,000 | 4.44 |
| 5 Brian Gregory Wright & Wendy Joy Wright <B G Wright Super Fund A/C> | 17,701,539 | 3.90 |
| 6 Mrs Patricia Gladys Wright | 15,040,000 | 3.31 |
| 7 HSBC Custody Nominees (Australia) Limited | 9,456,187 | 2.08 |
| 8 Leet Investments Pty Limited | 8,500,000 | 1.87 |
| 9 Picasso Holdings International Limited | 8,500,000 | 1.87 |
| 10 Leet Investments Pty Limited <Superannuation Fund A/C> | 8,040,000 | 1.77 |
| 11 Chemmet Pty Limited <Super Fund A/C> | 7,417,500 | 1.63 |
| 12 Minemet Australasia Pty Ltd | 7,132,057 | 1.57 |
| 13 Mr Edmond Wing Kin Cheung & Mrs Eliza Siu Ling Cheung <Edmond & Eliza S/F A/C> | 7,100,000 | 1.56 |
| 14 Mr Paul Guerin | 6,618,853 | 1.46 |
| 15 Citicorp Nominees Pty Limited | 5,299,947 | 1.17 |
| 16 Rizzo Super Pty Ltd <Rizzo Super Fund A/C> | 5,180,000 | 1.14 |
| 17 Mr Hugh McKee <McKee Super Fund A/C> | 4,000,000 | 0.88 |
| 18 Universal Magazines Pty Ltd | 3,875,000 | 0.85 |
| 19 HNS Investments Pty Ltd | 3,703,938 | 0.81 |
| 20 Yalumba Resources Limited | 3,600,000 | 0.79 |
| | 242,275,020 | 53.30 |

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES

Additional information for listed public companies (cont'd)

2. The name of the Company Secretary is Pipvide S Tang.
3. The address of the principal registered office in Australia is Lot 3, Five Islands Road, Unanderra, NSW 2526. Telephone (02) 4271 1822.
4. Registers of securities are held at the following address:
Boardroom Pty Limited,
Level 7, 207 Kent Street,
Sydney, NSW 2000.

5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited.

6. Unquoted securities

Convertible notes

300,000 convertible notes are on issue and held by:

| | Number of Convertible Notes Held | % Held of convertible notes |
|----------------------------|-------------------------------------------------|----------------------------------------|
| Linkenholt Pty Limited | 200,000 | 66.7 |
| Jeapna Superannuation Fund | 100,000 | 33.3 |
| | <u>300,000</u> | <u>100.0</u> |

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK



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
Email: office@hydromet.com.au