

**HYDROMET
CORPORATION LIMITED**

A.B.N. 71 002 802 646

*Processing
for a
Cleaner
Environment*

**ANNUAL REPORT
2010**



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

OFFICE AND OFFICERS

Principal registered office

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Company Secretary

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Offices

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**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2010**

	<i>Page</i>
Chairperson's report	2
Corporate governance statement	4
Directors' report	14
Auditor's independence declaration	25
Consolidated statement of comprehensive income	26
Statement of financial position	27
Statements of changes in equity	28
Statement of cash flow	30
Notes to the financial statements	31
Note 1: Summary of Significant Accounting Policies	31
Note 2: Revenue and Other Income	40
Note 3: Profit for the Year	41
Note 4: Income Tax Benefit	42
Note 5: Interests of Key Management Personnel (KMP)	43
Note 6: Auditors' Remuneration	45
Note 7: Dividends	45
Note 8: Earnings per Share	45
Note 9: Cash and Cash Equivalents	46
Note 10: Trade and Other Receivables	46
Note 11: Inventories	48
Note 12: Derivatives	48
Note 13: Other Financial Assets	48
Note 14: Controlled Entities	49
Note 15: Property, Plant and Equipment	51
Note 16: Intangible Assets	52
Note 17: Other Non-Current Assets	53
Note 18: Trade and Other Payables	53
Note 19: Borrowings	54
Note 20: Other Financial Liabilities	55
Note 21: Employee Benefits	56
Note 22: Tax	57
Note 23: Provisions	59
Note 24: Issued Capital	60
Note 25: Capital and Leasing Commitments	61
Note 26: Contingent Liabilities	62
Note 27: Operating Segments	62
Note 28: Cash Flow Information	65
Note 29: Share-based Payments	66
Note 30: Events After the Balance Sheet Date	67
Note 31: Related Party Transactions	68
Note 32: Financial Risk Management	69
Note 33: Reserves	75
Directors' declaration	76
Independent auditor's report to the members	77
Additional information for listed public companies	79

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

On behalf of the Directors of Hydromet Corporation Limited and its controlled entities (the Group), I am pleased to announce that our profit for 2010 along with our forecasts for this current year, have allowed us to return to the payment of dividends.

Whilst the announced fully-franked dividend will require most of the 2010 financial year's profit, that result was affected by the timing of increased sales of lead products whose contract price lags two to three months behind physical shipments. The Board's decision to declare a modest dividend at this time is in line with our long term objective to deliver further and increasing dividends as profit performance continues to improve in future years.

The second half of the last financial year was affected by a decline in overall base metal prices in May – June which have subsequently recovered in July and August generating a hedge benefit of \$1 Million to the Group.

As a major player in the recycling field in Australia we are processing up to 30% of the Used Lead Acid Battery (ULAB) generated in Australia. We have established a strong nationwide network for ULAB collection and a reliable smelter customer base for our lead products, with two highly reputed lead producers in Europe currently purchasing a major portion of our output. Our customer base also includes a leading Australasian battery and secondary lead producer. We believe that this complimentary arrangement will continue on a long term basis.

Our vision and commitment is to build our own secondary lead smelter at the Tomago site to realise the full value of our lead products, where current sales to these secondary smelter operators are made at a discount to the metal value. Our exercise to raise the balance of the required funds through an entitlement issue of options was withdrawn due to termination of the underwriting agreement by the underwriter as a result of the volatility in the equity market. However, since withdrawing the entitlement offer, there have been some encouraging responses to the Company from various parties and stakeholders supporting a future funding exercise. The total amount required for the project is approximately \$12.5 million of which \$9 million has already been secured. We are optimistic that the remaining amount (approximately \$3.5 million) will be available in the next 6-8 months.

It is worthwhile to note that the proposed smelting facility and the selection of the state of the art equipment are carefully designed to be flexible in handling a variety of feed materials and not limited to processing lead feed arising from ULAB recycling alone. The Group will aggressively explore other suitable feed and waste streams containing lead and other metals generated by base metal smelters and the E-waste processing industry in Australia. Subject to the success of the above development work, we will be at the cutting edge of recycling technology and will have a very strong competitive advantage in our objective to become a prominent lead recycler in Australia and globally.

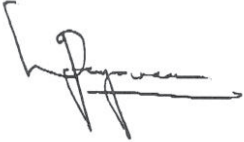
In regard to the selenium and precious metal activities at Tomago, the Company has embarked on a long term strategy to extend our services to purchase and process various gold bearing residue concentrates, slag and other by-products generated by the gold mining industry in Australia. We believe that there is a huge potential in this field as there are no other processing facilities in Australia currently processing these complex concentrates. These residues are predominantly exported to overseas processors. As the above activities are very complementary to our current selenium/precious metal operation at Tomago, we will be able to take advantage of these opportunities with limited refurbishment and modification to the existing facility.

With the above diversified plans in place for expansion in both areas of lead recycling and selenium and precious metal processing, we believe the Group is in a strong growth phase with the potential to increase its annual revenue to \$80 –100 million in the next 3 years. We expect substantial improvement in profitability as these projects are implemented.

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

Over the years we have built a very strong and dedicated team of professionals and management of whom I am extremely proud. I consider the team to be the Group's greatest asset and the key to its continuing success. On behalf of the Board of Directors, I would like to thank all personnel within the Group for their effort and dedication and look forward to their contribution in the future. I also would like to extend my gratitude to our loyal shareholders for their continued support.

We all look forward to a much brighter year ahead.



Dr Lakshman Jayaweera
Chairperson
25 August 2010

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.hydromet.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 directors 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:

- identification of those restricted from trading – directors and senior executives (all employees from site manager upwards) may acquire shares in the Company but are prohibited from dealing in Company shares or exercising options:
 - except between three (3) and thirty (30) days after either the release of the Company's half-year and annual results to the ASX, the annual general meeting or any major announcement; and
 - whilst in possession of price sensitive information not yet released to the market;
- to raise awareness of legal prohibitions including transactions with colleagues and external advisers;
- to raise awareness that the Company prohibits 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;
- to raise awareness that the Company prohibits those restricted from trading in Company shares as described above from entering into transactions such as margin loans that could trigger a trade during a prohibited period;
- to require details to be provided of intended trading in the Company's shares;
- to require details to be provided of the subsequent confirmation of the trade; and
- the identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

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 and the policy concerning trading in Company's securities are available to be viewed at the office of the Company. 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 3 times 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

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.

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 risk 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 Corporation 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. All members must be non-executive directors with a majority being independent. The chairperson may not be the chairperson of the committee. 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.

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 – 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.

Recommendation 8.3 – 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.

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

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*.

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

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.

The Company has complied with Recommendations 8.1, 8.2 and 8.3.

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 2010.

Principal Activities and Significant Changes in Nature of Activities

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

- process 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 \$477,000, after providing for income tax. The results represented a turnaround with slow recovery from the previous financial year. The improvement largely reflected the increase in productivity of the Group's operations. Although commodity prices had recovered slowly in the early part of the financial year, the severe drop in commodity prices during the last two months of the financial year adversely affected the reported results. Further discussion on the Group's operations now follows.

Review of Operations

The year under review was an extremely pleasing year in relation to productivity and finished product sales from both the used lead acid battery processing and industrial residues processing. The flow on from the Global Financial Crisis (GFC) continued to be a challenge over the year. However, we remained focused on our operating objectives and on improving our processing activities to meet our productivity expectations and manage the various external factors that influence our activities.

We remain acutely aware of the ongoing volatility of commodity prices and the currency exchange across our product lines. Both our raw material purchases and product sales are affected by both factors. Close monitoring of these external factors by management significantly contributed to the positive control of these potentially adverse conditions during the financial year.

On the close of the financial year, accounting standards require all sale values yet to be settled and stock on hand to be re-valued to reflect the market price of lead prevailing on that date (US\$1,690). The effect was to write down the value of these items impacting our full year profit results. However, the strong improvement in the lead price across July and August has revealed substantial improvements in the value of these items which have now been hedged at up to US\$500 per tonne higher than 30 June 2010 for sales yet to be settled in July, August and September 2010. We expect positive adjustments of up to A\$1 million to be reflected in the September 2010 quarter for stock revaluation and sales made and yet to be settled.

It is important to note that the Group's hedging strategy is to cover our known exposure including battery stocks in hand. When the lead price is falling, as experienced in May and June 2010 to a level of US\$1,690 per tonne, we did not hedge outstanding exposure. This is for two reasons:

- At US\$1,690 we would have locked in a loss; and
- We have up to four months to cover lead price exposure i.e. the timeframe between buying batteries and actual settlement price for customers.

Used Lead Acid Battery Processing

- Hydromet's firmly established Used Lead Acid Battery (ULAB) recycling operation has performed above expectation in the June half year after a slow start over July to December 2009 when markets were in a period of slow, steady recovery.
- The Unanderra plant processed 26,500 tonnes of ULAB's during the year with 13,900 tonnes during the period from March to June 2010.
- We recorded a record month in March 2010 processing 3,550 tonnes of batteries after gearing up to 24 hours, five days a week.
- The plant produced 14,700 tonnes of contained lead across its lead grid and lead oxide product sales.
- Our target throughput tonnage for the 2011 financial year is 36,000 tonnes of batteries containing approximately 22,000 tonnes of lead.
- Operating at maximum processing rates contributes valuable unit cost benefits to the project.
- During the 2010 financial year we sold our entire output to established and recently acquired secondary lead smelter customers around the world. These blue chip customers have underpinned our solid processing results. This has been an enormously satisfying outcome with our mature customer base seeking more product than the Group can supply under current approved operating parameters.

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

- Firm establishment of our in-house ULAB purchasing function has also produced excellent results to date with the market responding to Group's reputation for reasonable pricing and processing capability. Our ability to effectively compete with other collection agencies for this critical raw material source is a major advantage for the Group compared to its competitors. Strategies to increase this advantage are planned for the 2011 financial year.
- During the year we commenced production of lead nitrate using lead from our recycling plant to produce the chemical widely used in the gold mining industry to improve gold recovery rates. This relatively niche market in Australia will be further developed in the year ahead.

Selenium, Tellurium and Precious Metals Recycling – Tomago NSW.

- In the 2010 financial year, selenium and tellurium activity was also affected by pricing volatility with the June half-year revealing significant improvement in the market price for these commodities. Both the selenium and tellurium markets are small in annual arisings worldwide with selenium, at 3,000 tonnes per annum and tellurium at 600 tonnes per annum. The Group produced 100 tonnes of selenium in the year, equivalent to 3% of world demand. We also generated 14 tonnes of tellurium, 2.5% of annual demand. Both are classified as minor metals and usually associated with by-product residues from copper and nickel production.
- Selenium and tellurium are used in a range of product applications and more recently solar cell production.
- The residues also contain precious metals including gold, silver, platinum and palladium.
- Hydromet has developed technology to process these difficult feed streams recovering value for our clients and the Group.
- During the June half-year, processing improvements were introduced to increase productivity by 40% and additional feed was sourced to fill the available capacity.
- Further site activity advancements are planned for the year ahead which will reduce internal costs and the reliance on external service providers for some crucial waste stream management.
- At the date of this report, technical and commercial evaluation has commenced to assess a complementary feed source which has the prospect of generating copper for value adding along with another lead stream for the Group's lead business and ultimately the secondary lead smelter.
- Strategies to widen our existing product supply sources and the introduction of new feed streams are planned for the 2011 financial year.

Secondary Lead Smelter Project

- Progress for the construction of the lead smelter faltered in June when the entitlement offer of options made to shareholders failed to reach our \$4.5 Million acceptance target.
- In addition, our underwriter terminated the agreement due to volatile sentiment of both the commodity and stock market during the offer period from June to July 2010.
- Since announcing the withdrawal of our offer in early July 2010, management has commenced discussions with a number of parties interested in providing funding for the project. These are promising alternatives to the entitlement offer of options and may provide a better outcome.
- It was pleasing to note a number of shareholders offering their individual interest and support to participate in future fundraising plans for the smelter.
- Having created an effective sustainable battery recycling operation at Unanderra, it is important to complete the expansion via the production of lead metal from a smelter. Complete lead recovery will eliminate vulnerability as an intermediate lead producer and maximise both revenue and profitability.
- As previously reported, there will be three secondary lead producers in Australia once both Hydromet's and a Wagga Wagga based competitor come on line in 2010/11. We have weathered the competitive battery collection competition successfully since entering the industry in October 2006. As we expect to be the lowest cost smelter operator and have access to other low cost lead sources, we believe we will be in a strong position to provide long term benefits to the project.

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

- Advancement has been made in our technical and commercial evaluation of the CRT glass recycling project.
- CRT glass contains 10 to 15% of lead which when separated from the glass can provide another valuable lead source for our smelter project.
- CRT glass can no longer be disposed of to landfill and it is estimated that over the next five years, up to 140,000 tonnes of the waste will be collected as redundant television and computer monitors are discarded by households across the country.
- Our unique process combines three difficult industrial waste streams to separate the lead from silica and, with the addition of other waste inputs, we expect to effectively recover above 90% of the contained lead in the CRT glass.
- A programme of extensive pilot scale work will be carried out over the next six months to validate technical expectations and define the cost benefit of this highly interesting project.

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

Other Residue Sources

- As indicated above we are currently considering a number of valuable metal bearing waste streams which have the potential to capitalise on our existing and proposed recovery technologies. Sources are both within and outside Australia.
- With Hydromet's reputation well defined and acknowledged around the world, we receive referrals of interest from generators worldwide who recognise the unique capabilities of Hydromet's proven recovery processes.

Financial Position

The net assets of the Group have increased from \$16,452,000 as at 30 June 2009 to \$22,653,000 as at 30 June 2010. This increase is largely due to the following factors:

- improved operating performance of the Group;
- proceeds from share issues raising \$2,870,000; and
- appreciation of the value of the Group's land and buildings with a net movement in the Group's revaluation surplus of \$2,557,000.

The Group has increased its borrowing by \$769,000 in 2010. With equity injection and 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 \$3,230,000 in 2009 to \$7,610,000 in 2010.

To fund the planned secondary lead smelter at the Tomago site, the Group has received approval of a \$5 million equipment finance facility from its principal banker in June 2010. The facility is subject to several conditions being met prior to release of the fund.

A fully underwritten entitlement issue of options to shareholders was made in May 2010. The offer was withdrawn in July 2010 due to the termination of the underwriting agreement by the underwriter. The Company is looking for alternative funding arrangement to complete the finance of the secondary lead smelter project.

The directors believe 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:

- i. On 21 December 2009, the Company issued 53,750,000 ordinary shares at \$0.04 each to shareholders under a share purchase plan.
- ii. On 15 February 2010, the Company issued 18,000,000 ordinary shares at \$0.04 each under a private placement to a group of sophisticated investors.
- iii. On 25 May 2010, the Company redeemed \$100,000 10% convertible notes.

Dividends Paid or Recommended

No dividends were paid or declared for payment during the financial year.

After 30 June 2010 the following dividend was proposed by the directors. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial report.

Final ordinary dividend of 0.1 cents per share recommended by the directors to be paid on 15 October 2010 out of profit made in 2010 financial year:	\$454,512
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After Balance Date Events

A fully underwritten entitlement issue of options to shareholders was made in May 2010. The offer was withdrawn in July due to the termination of the underwriting agreement by the underwriter. The Company is looking for alternative funding arrangement to complete the finance of the secondary lead smelter project. The cost of this entitlement issue amounted to \$57,000 and was expensed to the 2011 financial year income statement.

Except for the above issue of options, no matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

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

Future Development, Prospects and Business Strategies

The Group is in the process of developing new and complimentary projects along with completing the secondary lead smelter at Tomago which will enhance existing activities, add value for future revenue increases and contribution to sustainable profitability.

- Steps have been taken to finalise the remaining funding required for the smelter with a number of options under consideration. We expect to finalise the matter by December 2010.
- With remaining smelter funding to be finalised by December, we anticipate that construction of the facility would commence in the first half of 2011.
- Development and pilot plant testing/evaluation is well underway in the CRT glass project, which as outlined in the Review of Operations is perfectly suited to the Hydromet recycling strategy particularly with its potential to strengthen our lead metal production plans and diversification of feed sources to the project. We will install a small scale rotary furnace at Unanderra which will mirror our selected furnace equipment for the smelter and allow us to run evaluation in the same conditions as the future plant. This will facilitate a realistic process and provide valuable data in our assessment of various other feed sources. The pilot furnace is under construction and we expect to see some results in the December 2010 quarter.
- We will also use the pilot furnace to determine its suitability for upgrading our precious metals recovered from the Tomago plant. If suitable for beneficiation in the furnace, the process will increase the value of metals recovered.
- The CRT glass recycling process has potential to add significant value to our lead business and enable the lead to be recovered via a unique process which will combine up to three current problematic residues to produce lead metal and predominantly silica, which may be suitable for road-base applications.
- Other valuable industrial by-product residues are in the process of development which can provide additional processing opportunity for our precious metals, selenium and tellurium business at Tomago. These are complex residues requiring detailed laboratory and pilot work to determine their likely value both technically and commercially.
- We are evaluating a by-product waste stream from another industry which, if acceptable, may replace a major chemical cost incurred in processing our various residue streams. The product has potential to be a substitute for a high cost chemical input used at our Unanderra facility.
- The Group has conducted lengthy work to consider further process enhancements at Tomago aimed at replacing the need for external services in relation to effluent management at the facility. We will commence installation of a water treatment facility at Tomago which will reduce the high external service currently used to manage effluent streams.

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.

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

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.

28,549,498 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.

Current 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

Stephen H Kwan

Qualifications

Experience

Interest in Shares and Options

Special Responsibilities

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

Director (Independent non-executive)

Master of Philosophy

Board member since 1991.

46,000 ordinary shares in Hydromet Corporation Limited.

Member of the Audit and Remuneration Committee.

None

Pipvide S Tang

Qualifications

Experience

Interest in Shares and Options

Special Responsibilities

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

Director - Finance (Executive)

Master of Business Administration and Certified Public Accountant

Board member since 1997.

3,334,000 ordinary shares in Hydromet Corporation Limited.

Responsibilities include finance and company secretarial functions.

Former director of Optima ICM Limited.

Yang Chun Ming

Qualifications

Experience

Interest in Shares and Options

Special Responsibilities

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

Director (Non-executive)

Over 30 years experience in chemical engineering and recycling of used lead acid battery.

Board member since May 2009.

49,924,000 ordinary shares in Hydromet Corporation Limited.

None

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 publicly listed companies in Australia and overseas. Mr Tang was appointed company secretary on 4 April 2003.

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

Meetings of Directors

During the financial year, 10 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	7	7	-	-
TR Allen	7	7	3	3
GW Wrightson	7	6	-	-
SH Kwan	7	6	3	2
PS Tang	7	7	-	-
CM Yang	7	2	-	-

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 were \$34,364 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 2010, 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 2010 has been received and copy is set out on page 25 of the financial report.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES DIRECTORS' 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, or in certain cases to the nearest dollar.

RENUMERATION 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 Group's 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 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 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 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 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 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 regulatory 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 to ensure buy-in. 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 Group 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 2006 to 2008 as well as an increase of dividends paid to shareholders. The improvement in the Groups's performance over the financial years 2006 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. The overall market dropped in financial year 2009 and continued to fall subsequent to year-end 2010. The Group returned to profit in 2010 following a slow recovery of the world economy.

	2010	2009	2008	2007	2006
	\$000	\$000	\$000	\$000	\$000
Revenue	43,150	27,923	34,148	20,005	13,564
Net profit/(loss)	477	(3,338)	2,556	2,255	(875)
Share price at year-end (cents)	2.9	4.1	7.8	7.2	4.5
Dividends paid and payable (cents)	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 \$0.025 and a high of \$0.06. It is a concern of the Board and the executives as greater fluctuations may lead to a further devaluation of the share price, and thus shareholder wealth. The Board has decided to offer Share Purchases Plan and Entitlement Issue of Options to shareholders to increase investor awareness of the company and to stabilise the company's share price in line with a 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 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 2010 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).	-	7.3	92.7		100
Mr TR Allen	Deputy Chairperson (Non-executive)	No fixed term. Refer Note (b).	-	23.4	76.6		100
Mr GW Wrightson	Managing Director (Executive)	3 year contract from 1 January 2009. Refer Note (a).	-	7.3	92.7		100
Mr PS Tang	Finance Director (Executive)	3 year contract from 1 July 2009. Refer Note (a).	-	11.1	88.9		100
Mr SH Kwan	Director (Non-executive)	No fixed term. Refer Note (b).	-	26.2	73.8		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).	3.3	3.7	93.0		100
Mr BJ Wyborn	Site Manager	No fixed term. 2 months notice required to terminate. Note (c).	3.2	3.6	93.2		100
Mr J Perera	Production Manager	No fixed term. 1 months notice required to terminate. Note (c).	4.0	2.7	93.3		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 2010

The following table outlines the benefits and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group and the three Group executives receiving the highest remuneration.

Table of Benefit and Payments for the Year ended 30 June 2010

		Short-term benefits				Post-employment benefit		Long – term benefit	Other compensation	Equity-settled share-based payments	Total
		Salary, fees & leave \$	Cash bonuses \$	Non-monetary \$	Total \$	Super-annuation \$	Retirement* \$	Long service leave \$	Insurance premium \$	Options \$	
Group Key Management Personnel											
Dr LD Jayaweera	2010	262,687	-	28,393	291,080	27,650	13,283	1,646	5,727	26,753	366,139
	2009	239,353	-	29,608	268,961	21,548	13,308	5,270	7,212	26,753	343,052
Mr TR Allen	2010	61,638	-	-	61,638	4,647	15,598	-	5,727	26,753	114,363
	2009	56,789	-	-	56,789	5,111	16,814	-	7,212	26,753	112,679
Mr GW Wrightson	2010	240,043	-	30,267	270,310	25,235	13,283	27,352	5,727	26,753	368,660
	2009	253,647	-	22,750	276,397	22,946	13,308	5,779	7,212	26,753	352,395
Mr PS Tang	2010	141,405	-	26,797	168,202	14,140	13,283	12,015	5,727	26,753	240,120
	2009	152,385	-	30,482	182,867	14,131	13,308	-	7,212	26,753	244,271
Mr SH Kwan	2010	51,639	-	-	51,639	4,647	13,283	-	5,727	26,753	102,049
	2009	46,640	-	-	46,640	4,197	13,308	-	7,212	26,753	98,110
Mr CM Yang	2010	50,000	-	-	50,000	5,134	10,892	-	5,727	-	71,753
	2009	7,043	-	-	7,043	-	1,400	-	611	-	9,054
Mr P Segura	2010	138,452	6,600	15,292	160,344	12,460	-	2,810	-	6,688	182,302
	2009	126,996	-	17,964	144,960	12,460	-	2,104	-	6,688	166,212
Mr BJ Wyborn	2010	138,442	6,600	20,592	165,634	12,459	-	2,616	-	6,822	187,531
	2009	142,431	-	21,439	163,870	12,329	-	3,644	-	6,822	186,665
Mr. J Perera	2010	124,917	6,600	-	131,517	11,242	-	2,572	-	4,013	149,344
	2009	100,414	-	-	100,414	10,205	-	6,116	-	4,013	120,748
Total Key Management Personnel	2010	1,209,223	19,800	121,341	1,350,364	117,614	79,622	49,011	34,362	151,288	1,782,261
	2009	1,125,698	-	122,243	1,247,941	102,927	71,446	22,913	36,671	151,288	1,633,186

* 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 during the year to key management personnel are as follows:

	Remuneration type	Grant date	Grant value \$	Reason for grant (Note 1)	Percentage paid during year % (Note 2)	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	12.1.2010	6,600	(a)	100	-	-	n/a	-
Mr BJ Wyborn	Cash	12.1.2010	6,600	(a)	100	-	-	n/a	-
Mr. J Perera	Cash	12.1.2010	6,600	(a)	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 being KPI measures based upon production targets.

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

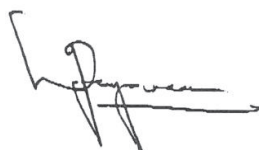
Options and Rights Granted

	Grant details			For the financial year ended 30 June 2010				Overall Expired %	
	Date	No.	Value \$	Exercise no.	Exercise \$	Expired No.	Expired \$ (Note 1)		Vested No.
Group Key Management Personnel									
Mr. SH Kwan	-	-	-	-	-	2,000,000	107,011	500,000	100
Mr. TR Allen	-	-	-	-	-	2,000,000	107,011	500,000	100
Dr LD Jayaweera	-	-	-	-	-	2,000,000	107,011	500,000	100
Mr. GW Wrightson	-	-	-	-	-	2,000,000	107,011	500,000	100
Mr. PS Tang	-	-	-	-	-	2,000,000	107,011	500,000	100
Mr. P Segura	-	-	-	-	-	500,000	26,752	125,000	100
Mr. BJ Wyborn	-	-	-	-	-	510,000	20,466	127,500	100
Mr. J Perera	-	-	-	-	-	300,000	16,051	75,000	100

No options were held by any Key Management Personnel at 30 June 2010.

Note 1: The value of options that has expired during the year has been determined at the time of their granting as if vesting conditions have been satisfied.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Dr Lakshman Jayaweera

Director

Dated: 25 August 2010



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

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of HydroMet Corporation Limited

As lead auditor for the audit of HydroMet Corporation Limited for the period ended 30 June 2010, I declare that, to the best of my knowledge and belief, 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'.

Andrew J Newhouse
Partner
HLB Newhouse

Wollongong, 25th August 2010

HLB Newhouse Pty Ltd ABN 20 073 798 615

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HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group		Parent Entity	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
Revenue	2	43,150	27,975	127	39
Other income	2	-	306	36	645
Changes in inventories of finished goods & WIP		(2,773)	270	-	-
Raw materials and consumables used		(24,254)	(19,580)	-	-
Other direct production costs		(6,999)	(6,071)	-	-
Employee benefits expenses		(6,388)	(5,595)	(1,693)	(1,606)
Depreciation and amortisation expenses		(864)	(889)	(52)	(53)
(Impairment)/Reversal of provision for intercompany loans and investments		-	-	2,300	(2,297)
Net gain/(loss) on sale of property, plant & equipment		1	-	(4)	-
Finance costs		(533)	(275)	(98)	(79)
Other expenses		(1,482)	(1,484)	(604)	(659)
Profit/(Loss) before income tax	3	(142)	(5,343)	12	(4,010)
Income tax (expense)/benefit	4	28	1,607	755	545
Profit/(Loss) for the period attributable to the members of the parent company		(114)	(3,736)	767	(3,465)
Other Comprehensive Income					
Effective portion of gain on cash flow hedge	4c	591	398	-	-
Net gain on revaluation of land and building	4c	2,557	-	-	-
Other comprehensive income/(loss) for the period, net of tax		3,148	398	-	-
Total comprehensive income/(loss) for the period attributable to the members of the parent company		3,034	(3,338)	767	(3,465)
Earnings per share					
Basic earnings per share (cents per share)	8	0.114	(0.983)		
Diluted earnings per share (cents per share)	8	0.125	(0.951)		

The accompanying notes form part of these financial statements.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$000	\$000	\$000	\$000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	4,450	2,908	2,936	788
Trade and other receivables	10	10,447	4,835	1	11
Inventories	11	6,656	3,223	-	-
Other assets	13	141	43	80	17
TOTAL CURRENT ASSETS		21,694	11,009	3,017	816
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	16,144	14,281
Other financial assets	13	-	-	8,785	8,656
Deferred tax assets	22	3,860	3,688	2,117	2,869
Property, plant and equipment	15	13,413	9,888	205	181
Intangible assets	16	663	663	-	-
Other non-current assets	17	557	557	-	-
TOTAL NON-CURRENT ASSETS		18,493	14,796	27,251	25,987
TOTAL ASSETS		40,187	25,805	30,268	26,803
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	18	8,711	3,868	182	66
Borrowings	19	2,170	1,640	72	454
Other financial liabilities	20	-	-	32	39
Employee benefits	21	854	740	302	278
Deferred income		60	155	-	-
Derivatives	12	-	368	-	-
Short-term provisions	23	2,289	1,008	-	21
TOTAL CURRENT LIABILITIES		14,084	7,779	588	858
NON-CURRENT LIABILITIES					
Borrowings	19	842	603	14,635	14,850
Employee benefits	21	368	230	252	164
Deferred tax liabilities	22	2,241	741	5	25
TOTAL NON-CURRENT LIABILITIES		3,451	1,574	14,892	15,039
TOTAL LIABILITIES		17,535	9,353	15,480	15,897
NET ASSETS		22,652	16,452	14,788	10,906
EQUITY					
Issued capital	24	73,077	70,239	73,077	70,239
Reserves	33	2,612	705	55	756
Accumulated losses		(53,037)	(54,492)	(58,344)	(60,089)
TOTAL EQUITY		22,652	16,452	14,788	10,906

The accompanying notes form part of these financial statements.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Consolidated Group

	Ordinary	Hedging	Assets	Compound	Equity	Accumu-	Total
	reserve	reserve	revaluat-	instrument	compen-	lated	
	\$000	\$000	ion	equity	sation	losses	
	\$000	\$000	reserve	reserve	reserve	\$000	\$000
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 30 June 2008	67,242	-	-	28	502	(50,821)	16,951
Loss for the year	-	-	-	-	-	(3,338)	(3,338)
Shares issued during the year	2,997	-	-	-	-	-	2,997
Convertible notes issued during the year	-	-	-	11	-	-	11
Effective portion of change in fair value of cash flow hedges, net of tax	-	(51)	-	-	-	-	(51)
Equity settled transactions, net of tax	-	-	-	-	215	-	215
Sub-total	70,239	(51)	-	39	717	(54,159)	16,785
Dividend paid	-	-	-	-	-	(333)	(333)
Balance at 30 June 2009	70,239	(51)	-	39	717	(54,492)	16,452
Balance at 1 July 2009	70,239	(51)	-	39	717	(54,492)	16,452
Transferred to profit or loss	-	51	-	-	-	-	51
Profit for the year	-	-	-	-	-	(114)	(114)
Total other comprehensive incomes for the year	-	-	2,557	-	-	591	3,148
Shares issued during the year	2,870	-	-	-	-	-	2,870
Transaction costs	(32)	-	-	-	-	-	(32)
Convertible notes issued during the year	-	-	-	16	-	-	16
Equity settled transactions, net of tax	-	-	-	-	261	-	261
Transferred to Accumulated losses	-	-	-	-	(978)	978	-
Balance at 30 June 2010	73,077	-	2,557	55	-	(53,037)	22,652

The accompanying notes form part of these financial statements.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Parent Entity

	Ordinary	Hedging	Assets	Compound	Equity	Accumu-	Total
	reserve	reserve	revaluat-	instrument	compen-	lated	
	\$000	\$000	ion	equity	sation	losses	\$000
	\$000	\$000	reserve	reserve	reserve	\$000	\$000
Balance at 30 June 2008	67,242	-	-	28	502	(56,291)	11,481
Loss for the year	-	-	-	-	-	(3,465)	(3,465)
Shares issued during the year	2,997	-	-	-	-	-	2,997
Convertible notes issued during the year	-	-	-	11	-	-	11
Equity settled transactions, net of tax	-	-	-	-	215	-	215
Sub-total	70,239	-	-	39	717	(59,756)	11,239
Dividend paid	-	-	-	-	-	(333)	(333)
Balance at 30 June 2009	70,239	-	-	39	717	(60,089)	10,906
Balance at 1 July 2009	70,239	-	-	39	717	(60,089)	10,906
Profit for the year	-	-	-	-	-	767	767
Shares issued during the year	2,870	-	-	-	-	-	2,870
Transaction costs	(32)	-	-	-	-	-	(32)
Convertible notes issued during the year	-	-	-	16	-	-	16
Equity settled transactions, net of tax	-	-	-	-	261	-	261
Transferred to Accumulated losses	-	-	-	-	(978)	978	-
Balance at 30 June 2010	73,077	-	-	55	-	(58,344)	14,788

The accompanying notes form part of these financial statements.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2010**

	Note	Consolidated Group		Parent Entity	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		38,211	31,245	-	809
Payment to suppliers and employees		(39,214)	(30,517)	(1,954)	(3,768)
Interest received		75	41	74	37
Finance costs		(214)	(275)	(92)	(79)
Income tax refunded/(paid)		5	(143)	755	(143)
Net cash provided by/(used in) operating activities	28	(1,137)	351	(1,217)	(3,144)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(769)	(558)	(95)	(5)
Purchase of non-current assets		-	(174)	-	-
Proceeds from sale of property, plant and equipment		36	-	15	-
Net cash used in investing activities		(733)	(732)	(80)	(5)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of finance lease liabilities		(294)	(323)	(43)	(103)
Proceeds from issue of shares		2,838	2,997	2,838	2,997
Proceeds from issue of convertible notes		-	200	-	200
Dividends paid by parent entity		-	(333)	-	(333)
Loans from subsidiaries		-	-	470	-
Repayments of borrowings		-	(1,238)	-	(532)
Proceeds from borrowings		1,079	66	180	-
Net cash provided by financing activities		3,623	1,369	3,445	2,229
Net increase/(decrease) in cash held		1,753	988	2,148	(920)
Cash and cash equivalents at beginning of financial year		2,908	1,944	788	1,712
Effect of exchange rate on cash holdings in foreign currencies		(211)	(24)	-	(4)
Cash and cash equivalents at end of financial year	9	4,450	2,908	2,936	788

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 2010**

Hydromet Corporation Limited (the 'Company') is a publicly listed company incorporated and domiciled in Australia. The address of the Company's registered office is Lot 3 Five Islands Road, Unanderra, NSW 2526, Australia. This financial report includes the consolidated financial statements and notes of Hydromet Corporation Limited and its controlled entities (Consolidated Group or Group) and the separate financial statements of Hydromet Corporation Limited as an individual parent entity (Parent Entity).

Note 1: Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has 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 a financial report 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. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

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

The financial statements were approved by the board of directors on 25 August 2010.

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 over which Hydromet Corporation Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent entity owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 14 to the financial statements.

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

b. Income Tax

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore 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 (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, 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, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

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

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.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

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 legally enforceable right of set-off exists, 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.

Tax consolidation

Hydromet Corporation Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2003. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as amounts payable/receivable to/from other entities in the tax-consolidated group.

c. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on 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 shown at 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, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity, all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the re-valued carrying amount of the asset is charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

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 re-valued amount of the asset.

Buildings

Buildings have been measured at cost less accumulated depreciation.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

Plant and equipment

Plant and equipment are measured at cost less accumulated depreciation or accumulated impairment losses.

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.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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 the statement of comprehensive income during the financial period in which they are incurred.

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 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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When re-valued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

e. Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward to the extent that they are expected to be recouped 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 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 carry forward 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 Group, are classified as finance leases.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

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

Finance leases are capitalised by recording 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.

Financed 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 charged 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.

g. Financial Instruments

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to 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. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. When available, quoted prices in an active market are used to determine the fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly 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 in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. 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.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

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

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, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

If during the period, the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

v. *Financial liabilities*

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

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, are 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 the statement of comprehensive income, 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 a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

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

Fair value

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.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

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

Financial guarantees

Where material, financial guarantees issued, which 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 under 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 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.

De-recognition

Financial assets are de-recognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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 value over its recoverable amount is expensed to the statement of comprehensive income.

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.

i. Intangibles

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 will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to 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

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

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 the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

k. Employee Benefit

Provision is made for the Group's liability for employee benefits arising from services rendered by employees prior to 30 June 2010. 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 equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Hull-White option-pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be 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.

m. Cash and Cash Equivalents

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

n. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

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 and the cessation of all involvement in those goods.

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 shall be 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

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

o. Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 60 days of recognition of the liability.

p. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

q. 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

r. Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

s. 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 applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

t. 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 report and directors' report have been rounded off to the nearest \$1,000, or in certain cases to the nearest dollar.

u. 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.

With respect to cash flow projections for plant and equipment based in Australia, growth rates of 5% have been factored into valuation models for the next five years on the basis of management's expectations around the Group's continued ability to capture market share from competitors. Cash flow growth rates of 5% subsequent to this period have been used as this reflects historical industry averages.

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 which permits a reasonable assessment of the existence of reserves. While there are certain areas

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

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.

v. Adoption of New and Revised Accounting Standards

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Hydromet Corporation Limited.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income and no income statement.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 1: Statement of Significant Accounting Policies (cont'd)**w. 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. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The Group has not yet determined the potential impact on the financial statements.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards. No other new accounting standards are applicable to the Group.

Note 2: Revenue and Other Income

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Revenue from continuing operations				
Sales revenue				
- sales of goods	41,463	26,223	-	-
- provision of services	1,457	1,679	-	-
	<u>42,920</u>	<u>27,902</u>	<u>-</u>	<u>-</u>
Other revenue				
Export market development grant	50	-	50	-
Interest received from other persons	75	41	74	37
Freight Income	74	21	-	-
Other revenue	31	11	3	2
	<u>230</u>	<u>73</u>	<u>127</u>	<u>39</u>
Total Revenue	<u>43,150</u>	<u>27,975</u>	<u>127</u>	<u>39</u>
Other Income				
Amortisation of financial guarantee contract liabilities	-	-	36	34
Foreign currency translation gain	-	306	-	611
	<u>-</u>	<u>306</u>	<u>36</u>	<u>645</u>

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Note 3: Profit for the Year				
a. Expenses				
Cost of sales	27,027	19,310	-	-
Interest expense on financial liabilities:				
- external	533	275	98	79
Bad and doubtful debts:				
- wholly-owned subsidiaries	-	-	-	3,880
Rental expense on operating leases				
- minimum lease payments	176	169	13	16
Exploration expenditure	-	29	-	-
Research & development costs	16	32	-	-
Foreign currency translation losses	318	-	6	-
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)	(1,634)	-	-
Bad and doubtful debts reversed:				
- wholly-owned subsidiaries	-	-	2,300	-

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

	Note	Consolidated Group		Parent Entity	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
Note 4: Income Tax Benefit					
a. The components of tax benefit comprise:					
Deferred tax	22	23	1,597	750	535
Adjustment in respect of prior years		5	10	5	10
		<u>28</u>	<u>1,607</u>	<u>755</u>	<u>545</u>
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% (2009: 30%)					
- Consolidated group		43	1,604	-	-
- Parent entity		-	-	(4)	1,203
Add:					
Tax effect of:					
- Other assessable income		(2)	-	(2)	-
- Non-deductible expenses		(104)	(93)	(50)	(738)
Less:					
Tax effect of:					
- Non-assessable income		-	-	701	-
- Other deductible expenses		8	16	2	-
- Adjustments for prior periods		83	80	108	80
Income tax benefit attributable to entity		<u>28</u>	<u>1,607</u>	<u>755</u>	<u>545</u>

The applicable weighted average effective tax benefit rates are as follows:

20%	30%	6%	14%
-----	-----	----	-----

The decrease in the weighted average effective consolidated tax benefit rate for 2010 is a result of increase in non-deductible expenses compared to 2009.

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

	Before-tax amount \$000	2010 Tax (expenses) benefit \$000	Net-of-tax amount \$000	Before-tax amount \$000	2009 Tax (expenses) benefit \$000	Net-of-tax amount \$000
Consolidated Group						
Realised gain on settlement of cash flow hedge	845	(254)	591	569	(171)	398
Net gain on revaluation of land and building	3,654	(1,097)	2,557	-	-	-
	<u>4,499</u>	<u>(1,351)</u>	<u>3,148</u>	<u>569</u>	<u>(171)</u>	<u>398</u>

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 5: 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 2010.

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

	2010	2009
	\$	\$
Short-term employee benefits	1,350,364	1,247,941
Post-employment benefits	197,236	174,373
Other long-term benefit	49,011	22,913
Other compensation	34,362	36,671
Share-based payments	151,288	151,288
	<u>1,782,261</u>	<u>1,633,186</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 is 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 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	-	-
30 June 2009						
Dr LD Jayaweera	2,000,000	-	2,000,000	500,000	1,500,000	-
Mr TR Allen	2,000,000	-	2,000,000	500,000	1,500,000	-
Mr GW Wrightson	2,000,000	-	2,000,000	500,000	1,500,000	-
Mr PS Tang	2,000,000	-	2,000,000	500,000	1,500,000	-
Mr SH Kwan	2,000,000	-	2,000,000	500,000	1,500,000	-
Mr P Segura	500,000	-	500,000	125,000	375,000	-
Mr BJ Wyborn	510,000	-	510,000	127,500	382,500	-
Mr J Perera	300,000	-	300,000	75,000	382,500	-

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 5: 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 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)	-
30 June 2009			
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 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	-	-	-
30 June 2009			
Dr LD Jayaweera	32,514,007	(4,714,509)	27,799,498
Mr TR Allen	350,000	-	350,000
Mr GW Wrightson	1,138,300	-	1,138,300
Mr PS Tang	2,959,000	-	2,959,000
Mr SH Kwan	46,000	-	46,000
Mr CM Yang	-	49,924,000	49,924,000
Mr P Segura	138,000	-	138,000
Mr BJ Wyborn	160,000	-	160,000
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 2010

Note 5: 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		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000

Note 6: Auditors' Remuneration

Remuneration of the auditors of the parent entity:

HLB Newhouse

- auditing or reviewing the financial report

71	30	71	30
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KPMG (former auditor)

- auditing or reviewing the financial report

-	71	-	71
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- taxation services

25	35	-	35
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- taxation services provided by related practice of auditor

-	7	-	7
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Note 7: Dividends*Distribution paid*

2008 final dividend (fully franked) of 0.1 cent per share paid in 2009

-	333	-	333
-	333	-	333

Dividend not recognised at the end of the reporting period

Proposed final 2010 fully franked ordinary dividend of 0.1 cent (2009: \$ nil) per share franked at the tax rate of 30%.

455	-	455	-
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Balance of franking account at year end adjusted for franking credits arising from:

- payment of provision for income tax

2,949	2,949	2,949	2,949
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Subsequent to year-end, the franking account will be reduced by the proposed dividend reflected above:

(194)	-	(194)	-
2,755	2,949	2,755	2,949

Consolidated Group	
2010	2009
\$000	\$000

Note 8: Earnings per Share

a. Reconciliation of earnings to profit or loss

Earning used to calculate basic EPS

477	(3,338)
-----	---------

Interest on convertible notes, net of tax

57	42
----	----

Earnings used in the calculation of dilutive EPS

534	(3,296)
-----	---------

b. Weighted average number of ordinary shares (in thousands of shares)

Used in calculating basic EPS

417,547	339,669
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Weighted average number of diluted convertible notes on issue

9,375	7,000
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Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted EPS

426,922	346,669
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c. Anti-dilutive options on issue not used in diluted EPS calculation.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 9: Cash and Cash Equivalents

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Cash at bank and in hand	1,693	2,381	179	261
Short-term bank deposits	2,757	527	2,757	527
	<u>4,450</u>	<u>2,908</u>	<u>2,936</u>	<u>788</u>

The effective interest rate on short-term bank deposits was 4.20% (2009: 4.64%); these deposits are on call.

Note 10: Trade and Other Receivables

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
CURRENT				
Trade receivables	8,969	1,893	-	-
Other receivables	1,478	2,942	1	11
Total current trade and other receivables	<u>10,447</u>	<u>4,835</u>	<u>1</u>	<u>11</u>
NON-CURRENT				
Loans to subsidiaries	-	-	36,854	43,907
Provision for impairment	-	-	(20,710)	(29,626)
Total non-current receivable	<u>-</u>	<u>-</u>	<u>16,144</u>	<u>14,281</u>

a. Provision for Impairment of Receivables

Loans are made by the parent entity to wholly-owned subsidiaries to fund their working capital. Loans outstanding between the parent entity and its subsidiaries have no fixed date of repayment and are non-interest bearing. The provision for impairment arises from the net shareholder's fund of the subsidiaries being less than the loans due to the parent entity.

Movement in the provision for impairment of non-current loans to wholly-owned subsidiaries is as follows:

Parent Entity	\$000
Balance at 1 July 2008	27,329
Charged for the year	2,297
Balance at 30 June 2009	<u>29,626</u>
Reversed during the year	(2,300)
Amounts written off	(6,616)
Balance at 30 June 2010	<u>20,710</u>

There are no balances within trade and other receivables that contain assets that are not impaired and are past due, other than as noted above. It is expected these balances will be received as and when they become due.

b. Credit Risk – Trade and Other Receivable

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 10. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related 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 2010

Note 10: Trade and Other Receivables (cont'd)

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		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Australia	2,823	430	16,145	14,292
Europe	6,133	1,997	-	-
Asia Pacific	736	670	-	-
North America	755	1,738	-	-
	<u>10,447</u>	<u>4,835</u>	<u>16,145</u>	<u>14,292</u>

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 counter party 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.

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 \$000	Past due and impaired \$000	Past due but not impaired (days overdue)		Within initial trade terms \$000
			<30	>90	
			\$000	\$000	
Consolidated Group					
2010					
Trade receivables	8,969	-	-	-	8,969
Other receivables	1,478	-	-	-	1,478
Total	<u>10,447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,447</u>
2009					
Trade receivables	1,893	-	128	5	1,760
Other receivables	2,942	-	-	-	2,942
Total	<u>4,835</u>	<u>-</u>	<u>128</u>	<u>5</u>	<u>4,702</u>
Parent Entity					
2010					
Other receivables	1	-	-	-	1
Loan to subsidiaries	16,144	-	-	-	16,144
Total	<u>16,145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,145</u>
2009					
Other receivables	11	-	-	-	11
Loan to subsidiaries	14,281	-	-	-	14,281
Total	<u>14,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,292</u>

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 10: Trade and Other Receivables (cont'd)**b. Credit Risk – Trade and Other Receivable**

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

Note 11: Inventories

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT				
At cost				
Raw material and consumables	158	873	-	-
Work in progress	306	351	-	-
Finished goods	2,817	1,916	-	-
	<u>3,281</u>	<u>3,140</u>	<u>-</u>	<u>-</u>
At net realisable value				
Raw material and consumables	1,375	-	-	-
Work in progress	-	83	-	-
Finished goods	2,000	-	-	-
	<u>3,375</u>	<u>83</u>	<u>-</u>	<u>-</u>
	<u>6,656</u>	<u>3,223</u>	<u>-</u>	<u>-</u>

Note 12: Derivatives

	Note	Consolidated Group		Parent Entity	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT					
Liabilities					
Commodity swap contracts	32	-	368	-	-
		<u>-</u>	<u>368</u>	<u>-</u>	<u>-</u>

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 balance sheet. At the date of the transaction, amounts included in the hedge reserve are transferred from equity and included in either the statement of comprehensive income or the cost of assets. The statement of changes in equity includes transfers to and from the hedge reserve.

Note 13: Other Financial Assets

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT				
Prepayments	141	43	80	17
	<u>141</u>	<u>43</u>	<u>80</u>	<u>17</u>
NON-CURRENT				
Shares in subsidiaries	-	-	13,785	13,656
Less: impairment provision	-	-	(5,000)	(5,000)
	<u>-</u>	<u>-</u>	<u>8,785</u>	<u>8,656</u>

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 13: Other Financial Assets (cont'd)

On 3 December 2007 the Company granted share-based payments to employees of two subsidiaries under the Employee Share Option Plan. 25% of the options granted were vested and exercisable during the reporting period. As the options were granted for the benefit of the subsidiaries, the fair value of the options vested in the year amounted to \$100,000 (2009: \$61,000) is accounted for as investment in subsidiaries.

During the year the Company issued a guarantee in favour of a financial institution to secure an overdraft facility for a subsidiary. The fair value of the guarantee amounted to \$29,000 (2009: \$nil) and is accounted for as investment in subsidiaries.

Note 14: Controlled Entities**a. Controlled Entities Consolidated**

	Country of incorporation	Percentage Owned*	
		2010 %	2009 %
Parent Entity			
Hydromet Corporation Limited			
Subsidiaries of Hydromet Corporation Limited			
Hydromet Operations (Southern) Limited	Australia	100	100
Hydromet Technologies Pty Limited [^]	Australia	-	100
Hydromet Operations (NT) Pty Limited [^]	Australia	-	100
Hydromet Operations (Tasmania) Pty Limited [^]	Australia	-	100
Hydromet Corporation Debenture Nominees Pty Limited	Australia	100	100
Mineral Estates Pty Limited	Australia	100	100
Subsidiaries of which are:			
Minmet Operations Pty Limited	Australia	100	100
Kia Pacific Gold Pty Limited	Australia	100	100
Minmet Unit Trust	Australia	100	100
Hydromet Operations Limited	Australia	100	100
Subsidiary of which is:			
Enviromet Operations Pty Limited [^]	Australia	-	100

* Percentage of voting power is in proportion to ownership.

[^]These dormant subsidiaries were deregistered voluntarily during the year. The outstanding loans due from these subsidiaries to the parent entity amounted to \$6,617,000 were written off against the provision for impairment.

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 Operations (Tasmania) Limited*
- Hydromet Operations (NT) Pty Limited*
- Enviromet Operations Pty Limited*
- Hydromet Corporation Debenture Nominees Pty Limited

* These dormant subsidiaries were voluntarily deregistered during the year.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 14: Controlled Entities (cont'd)**b. Deed of Cross guarantee (cont'd)**

The following are the aggregate totals, for each category, relieved under the deed.

	2010	2009
	\$000	\$000
Financial information in relation to:		
i. Statement of Comprehensive Income		
Profit/(Loss) before income tax	510	(4,950)
Income tax (expense)/benefit	(124)	1,489
(Loss)/profit after income tax	<u>386</u>	<u>(3,461)</u>
(Loss)/profit attributable to members of the parent entity	<u>386</u>	<u>(3,461)</u>
ii. Retained Earnings		
Accumulated losses at the beginning of the year	(57,258)	(53,464)
Profit/(Loss) after income tax	386	(3,461)
Dividend provided for or paid	-	(333)
Transferred from Equity Compensation Reserve	978	-
Accumulated losses at the end of the year	<u>(55,894)</u>	<u>(57,258)</u>
iii. Statement of Financial Position		
CURRENT ASSETS		
Cash and cash equivalents	3,205	1,237
Trade and other receivables	6,754	2,298
Inventories	3,486	1,607
TOTAL CURRENT ASSETS	<u>13,445</u>	<u>5,142</u>
NON-CURRENT ASSETS		
Other financial assets	11,476	11,432
Deferred tax assets	2,772	3,257
Property, plant and equipment	10,257	7,764
Intangible assets	663	663
TOTAL NON-CURRENT ASSETS	<u>25,168</u>	<u>23,116</u>
TOTAL ASSETS	<u>38,613</u>	<u>28,258</u>
CURRENT LIABILITIES		
Trade and other payables	3,252	1,578
Short-term borrowings	330	693
Employee benefits	544	441
Short-term provisions	1,658	816
TOTAL CURRENT LIABILITIES	<u>5,784</u>	<u>3,528</u>
NON-CURRENT LIABILITIES		
Long-term borrowings	12,492	10,377
Employee benefits	299	181
Deferred tax liabilities	1,015	486
TOTAL NON-CURRENT LIABILITIES	<u>13,806</u>	<u>11,044</u>
TOTAL LIABILITIES	<u>19,590</u>	<u>14,572</u>
NET ASSETS	<u>19,023</u>	<u>13,686</u>
EQUITY		
Issued capital	73,077	70,239
Reserves	1,840	705
Accumulated losses	(55,894)	(57,258)
	<u>19,023</u>	<u>13,686</u>

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 15: Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
LAND AND BUILDINGS				
Freehold land at:				
- deemed cost	-	2,786	-	-
- independent valuation 2010	6,440	-	-	-
Total Land	<u>6,440</u>	<u>2,786</u>	<u>-</u>	<u>-</u>
Buildings at cost	4,418	4,418	-	-
Less accumulated depreciation	(1,283)	(1,174)	-	-
Total Buildings	<u>3,135</u>	<u>3,244</u>	<u>-</u>	<u>-</u>
Total Land and Buildings	<u>9,575</u>	<u>6,030</u>	<u>-</u>	<u>-</u>
PLANT AND EQUIPMENT				
Plant & equipment at cost	8,944	8,564	-	-
Accumulated depreciation	(6,104)	(5,436)	-	-
	<u>2,840</u>	<u>3,128</u>	<u>-</u>	<u>-</u>
Leased plant and equipment				
Capitalised leased assets	503	479	228	295
Accumulated depreciation	(230)	(195)	(208)	(125)
	<u>273</u>	<u>284</u>	<u>20</u>	<u>170</u>
Motor vehicles and office equipment	356	327	319	211
Accumulated depreciation	(310)	(301)	(134)	(200)
	<u>46</u>	<u>26</u>	<u>185</u>	<u>11</u>
Plant under construction	679	420	-	-
Total Plant and Equipment	<u>3,838</u>	<u>3,858</u>	<u>-</u>	<u>-</u>
Total Property, Plant and Equipment	<u>13,413</u>	<u>9,888</u>	<u>205</u>	<u>181</u>

The Group's land was re-valued 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 2010**

Note 15: 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 2008	2,786	3,349	3,470	286	30	298	10,219
Additions	-	8	355	63	10	122	558
Depreciation expense	-	(113)	(697)	(65)	(14)	-	(889)
Balance at 30 June 2009	2,786	3,244	3,128	284	26	420	9,888
Additions	-	-	401	78	31	259	769
Revaluation increments	3,654	-	-	-	-	-	3,654
Disposals	-	-	(15)	(19)	-	-	(34)
Depreciation expense	-	(109)	(674)	(70)	(11)	-	(864)
Balance at 30 June 2010	6,440	3,135	2,840	273	46	679	13,413
Parent Entity							
Balance at 1 July 2008	-	-	-	217	13	-	230
Additions	-	-	-	-	4	-	4
Depreciation expense	-	-	-	(47)	(6)	-	(53)
Balance at 30 June 2009	-	-	-	170	11	-	181
Additions	-	-	-	78	17	-	95
Disposals	-	-	-	(19)	-	-	(19)
Internal transfer	-	-	-	3	(3)	-	-
Depreciation expense	-	-	-	(47)	(5)	-	(52)
Balance at 30 June 2010	-	-	-	185	20	-	205
				Consolidated Group		Parent Entity	
				2010	2009	2010	2009
				\$000	\$000	\$000	\$000
b. Carrying Amount of Plant & Equipment in the Course of Construction				679	420	-	-

During the year ended 30 June 2008 the Group lodged a development application with the authorities to construct a secondary lead smelter on its Tomago site. The Group received the approval in January 2009 and anticipates that the smelter will commence commissioning in 2011. Plant design and assessment of equipment were completed with cost incurred up to the reporting date totalling \$674,000 (2009: \$420,000). Another processing plant is under construction with costs incurred to the reporting date totalling to \$5,000 (2009: \$nil). The plant was designed to process CRT glass and extract lead metal for further process.

Note 16: Intangible Assets

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Hydroproc Process				
Cost	2,217	2,217	-	-
Accumulated impairment	(1,554)	(1,554)	-	-
Net carrying value	663	663	-	-

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 16: 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 2011 business plan; and
- a five percent growth rate for cash flows for a further nineteen-year period.

A pre-tax discount rate of 10.6 percent (2009: 14 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 recoverable during the financial year.

The written down value of the Hydroproc process is less than one year's expected future profit from the use of the asset.

Note 17: Other Non-Current Assets

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
NON-CURRENT				
Exploration expenditure capitalised				
- exploration and evaluation phases	557	557	-	-
Total exploration expenditure	<u>557</u>	<u>557</u>	<u>-</u>	<u>-</u>

The Stanton Prospect

The Stanton cobalt project is located in the Northern Territory and comprises an exploration license covering 275 square kilometres and a mining lease with an area extent 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.

Note 18: Trade and Other Payables

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT				
Unsecured liabilities				
Trade payables	3,282	1,628	31	21
Sundry payables and accrued expenses	5,429	2,240	151	45
	<u>8,711</u>	<u>3,868</u>	<u>182</u>	<u>66</u>

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 19: Borrowings

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT				
Unsecured liabilities				
Convertible notes	-	421	-	421
	<u>-</u>	<u>421</u>	<u>-</u>	<u>421</u>
Secured liabilities				
Bank loans	1,835	935	-	-
Lease liabilities	335	284	72	33
	<u>2,170</u>	<u>1,219</u>	<u>72</u>	<u>33</u>
Total current borrowings	<u>2,170</u>	<u>1,640</u>	<u>72</u>	<u>454</u>
NON-CURRENT				
Unsecured liabilities				
Convertible notes	688	184	688	184
Loans from subsidiaries	-	-	13,879	14,596
	<u>688</u>	<u>184</u>	<u>14,567</u>	<u>14,780</u>
Secured liabilities				
Lease liabilities	154	419	68	70
Total non-current liabilities	<u>842</u>	<u>603</u>	<u>14,635</u>	<u>14,850</u>
Total borrowings	<u>3,012</u>	<u>2,243</u>	<u>14,707</u>	<u>15,304</u>
a. Total current and non-current secured liabilities:				
Bank loans	1,835	935	-	-
Leased liabilities	489	703	140	103
	<u>2,324</u>	<u>1,638</u>	<u>140</u>	<u>103</u>
b. The carrying amount of non-current assets pledged as security are:				
Freehold land and buildings	9,575	6,030	-	-
Leased plant & equipment	273	284	205	170
Floating charges over assets	30,339	19,491	-	-
	<u>40,187</u>	<u>25,805</u>	<u>205</u>	<u>170</u>
c. Convertible notes				
Proceeds from the issue of convertible notes	750	650	750	650
Transaction costs	(6)	(6)	(6)	(6)
Net proceeds	744	644	744	644
Amount classified as equity	(56)	(39)	(56)	(39)
Carrying amount of liability at 30 June	<u>688</u>	<u>605</u>	<u>688</u>	<u>605</u>

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 19: Borrowings (cont'd)

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.

d. 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 dividends paid out of net earnings earned after the date of the loan agreement and in any one year, not to exceed 50% of net profit after tax, less principal and interest repayments of the previous fiscal year. Upon the directors' request, the bank has given its consent to allow the Company to pay a dividend greater than 50% of its after tax profit for the 2010 financial year.

Lease liabilities are secured by the underlying leased assets.

Note 20: Other Financial Liabilities

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT				
Financial guarantees	-	-	32	39
	-	-	32	39

The Company has guaranteed a finance lease liability and bank overdraft of a subsidiary. 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.

Terms and face values of the liabilities guaranteed were as follows:

	Year of maturity	30 June 2010 Face value \$000	30 June 2009 Face value \$000
Bank overdraft of subsidiary	Quarterly review	500	500
Finance lease liability of subsidiary	2011	1,043	1,043

The Company has also entered into a Deed of Cross Guarantee with certain subsidiaries as described in Note 14. Under the terms of the Deed, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up. Details of the consolidated financial position of the Company and subsidiaries party to the Deed are set out in Note 14.

The method used in determining the fair value of these guarantees has been disclosed in Note 32.

The Company has recognised liabilities representing current and potential exposure to guarantees that it has issued to third parties in relation to the performance and obligations of controlled entities with respect to banking facilities.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 21: Employee benefits

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT				
Salaries and wages accrued	81	49	11	14
Liability for annual leave	498	444	137	134
Liability for long service leave	275	247	154	130
Total current employee benefits	<u>854</u>	<u>740</u>	<u>302</u>	<u>278</u>
NON-CURRENT				
Liability for long service leave	128	70	12	4
Liability for retirement benefit	240	160	240	160
Total non-current employee benefits	<u>368</u>	<u>230</u>	<u>252</u>	<u>164</u>
Total employee benefits	<u>1,222</u>	<u>970</u>	<u>554</u>	<u>442</u>

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

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 the income statement are as follows:

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Contribution to superannuation funds	655	611	219	227
Present value of retirement benefit	<u>80</u>	<u>71</u>	<u>80</u>	<u>71</u>

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 22: Tax

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
CURRENT				
Income tax receivable	-	10	-	10

The amount was included in trade and other receivables in the statement of financial position of the previous financial year.

NON-CURRENT

	Opening Balance \$000	Charged to Income \$000	Charged directly to Equity \$000	Closing Balance \$000
Consolidated Group				
Deferred Tax (Liabilities)				
Property, plant and equipment – tax allowance	(297)	-	-	(297)
Inventory	-	(188)	-	(188)
Accrued income	-	(253)	-	(253)
Other	(129)	126	-	(3)
Balance at 30 June 2009	(426)	(315)	-	(741)
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)

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 22: Tax (cont'd)

	Opening Balance	Charged to Income	Charged directly to Equity	Charged to subsidiary loan	Closing Balance
	\$000	\$000	\$000	\$000	\$000
Deferred Tax Assets					
Provision	1,153	(464)	-	-	689
Accrued expenses	23	(5)	-	-	18
Tax loss carry-forward	486	2,232	-	-	2,718
Property, plant and equipment – impairment	198	(156)	22	-	64
Income received in advance	-	148	-	-	148
Other	65	(14)	-	-	51
Balance at 30 June 2009	1,925	1,741	22	-	3,688
Provision	689	340	-	-	1,029
Accrued expenses	18	1	-	-	19
Tax loss carry-forward	2,718	(778)	-	-	1,940
Property, plant and equipment – impairment	64	19	-	-	83
Income received in advance	148	620	-	-	768
Other	51	(30)	-	-	21
Balance at 30 June 2010	3,688	172	-	-	3,860

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 (2009: \$99,000)
- tax losses: unrealised capital losses \$347,000 (2009: \$322,000)

	Opening Balance	Charged to Income	Charged directly to Equity	Charged to subsidiary loan	Closing Balance
	\$000	\$000	\$000	\$000	\$000
Parent Entity					
Deferred Tax (Liabilities)					
Other	(16)	(9)	-	-	(25)
Balance at 30 June 2009	(16)	(9)	-	-	(25)
Other	(25)	20	-	-	(5)
Balance at 30 June 2010	(25)	20	-	-	(5)
Deferred Tax Assets					
Provision	110	25	-	-	135
Accrued expenses	15	(11)	-	-	4
Tax loss carry-forward	486	531	-	1,701	2,718
Property, plant and equipment – impairment	9	1	-	-	10
Other	5	(3)	-	-	2
Balance at 30 June 2009	625	543	-	1,701	2,869
Provision	135	28	-	-	163
Accrued expenses	4	(1)	-	-	3
Tax loss carry-forward	2,718	704	-	(1,482)	1,940
Property, plant and equipment – impairment	10	(1)	-	-	9
Other	2	-	-	-	2
Balance at 30 June 2010	2,869	730	-	(1,482)	2,117

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 (2009: \$99,000)

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 23: Provisions

	Site restoration	Waste disposal	Penalty payment	Price adjustment on sales	Total
	\$000	\$000	\$000	\$000	\$000
Consolidated Group					
Opening balance at 1 July 2009	560	341	21	86	1,008
Amounts used	-	(43)	(21)	-	(64)
Additional provision	-	-	-	1,345	1,345
Balance at 30 June 2010	<u>560</u>	<u>298</u>	<u>-</u>	<u>1,431</u>	<u>2,289</u>
The Company					
Opening balance at 1 July 2009	-	-	21	-	21
Amounts used	-	-	(21)	-	(21)
Additional provision	-	-	-	-	-
Balance at 30 June 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Analysis of Total Provisions				
Current	2,289	1,008	-	21
Non-current	-	-	-	-
	<u>2,289</u>	<u>1,008</u>	<u>-</u>	<u>21</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.

Penalty payment

In March 2007, the Company issued \$450,000 convertible notes at their face value. The notes have a coupon rate of 9% per annum and mature in 30 months from date of issue. The notes are convertible to ordinary shares of the Company at the price of 10 cents per share on or at any time before their maturity. The notes will be redeemed at their face value on maturity if the holders fail to convert the notes to ordinary shares. A penalty payment of 5% of the face value of the notes will be paid to the holders on redemption if the Group fails to achieve basic earnings per share of 1 cent in 2009 financial year and the share price is less than ten cents. During the 2009 financial year the Company has provided \$9,000 for this penalty payment. The convertible notes were matured and reissued without the penalty payment clause during the 2010 financial year.

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 increased by \$1,345,000 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 2010

Note 24: Issued Capital

	Consolidated Group And Parent entity		Consolidated Group And Parent entity	
	2010 No.	2009 No.	2010 \$000	2009 \$000
Fully paid ordinary shares	454,512,280	382,762,280	73,077	70,239
a. Ordinary Shares				
At the beginning of the reporting period	382,762,280	332,828,280	70,239	67,242
Shares issued during the year				
- 5 May 2009	-	10,000	-	2
- 11 May 2009	-	49,924,000	-	2,995
- 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	382,762,280	73,077	70,239

On 21 December 2009, the Company issued 53,750,000 ordinary shares to shareholders at \$0.04 per share under a Share Purchase Plan. The shares ranked equally to existing ordinary shares on the date of issue.

On 15 February 2010, the Company issued 18,000,000 ordinary shares at \$0.04 per share under a private placement to a group of sophisticated investors. The shares ranked equally to existing ordinary shares on the date of issue.

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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Issued Capital (cont'd)

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 2010 and 30 June 2009 are as follows:

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$000	\$000	\$000	\$000
Total borrowings	18,19,20	11,723	6,111	14,921	15,409
Less cash and cash equivalents	10	(4,450)	(2,908)	(2,936)	(788)
Net debt		7,273	3,203	11,985	14,621
Total equity		22,652	16,452	14,788	10,906
Total capital		29,925	19,655	26,773	25,527
Gearing ratio		24%	16%	45%	57%

Note 25: Capital and Leasing Commitments

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$000	\$000	\$000	\$000
a. Finance Lease Commitments					
Payable – minimum lease payments					
- not later than 12 months		360	321	81	34
- between 12 months and 5 years		159	446	71	80
Minimum lease payments		519	767	152	114
Less future finance charges		(30)	(64)	(12)	(11)
Present value of minimum lease payments	19	489	703	140	103

The Group's motor vehicle finance lease liabilities of \$174,000 (2009: \$160,000) expire from one to three 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's plant and equipment finance lease liability of \$315,000 (2009: \$543,000) expires in two years. 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		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Payable – minimum lease payments				
- not later than 12 months	8	7	-	-
- between 12 months and 5 years	37	38	-	-
Minimum lease payments	45	45	-	-

The Company and the Group lease a number of small items of capital equipment under operating lease. The leases typically run for a period of 3 to 5 years. None of the lease agreements include contingent rentals.

c. Capital Expenditure Commitments

Capital expenditure commitments contracted for:

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Plant and equipment purchase				
Payable not later than 12 months	352	63	-	-

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 26: Contingent Liabilities

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

Contingent Liabilities*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 (2009: \$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.

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 as 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:

- products sold and/or services provided by the segment;
- nature of feed material;
- manufacturing process;
- type or class of customer for the products or service; and
- 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 them. 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 was consumed internally for other manufacturing processes.

The used battery 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 by applying the 'Hydroproc Process'. The products are similar in nature and distributed to similar types of customers. The residue treatment operations are subject to a similar regulatory environment.

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, as 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 inter-segment 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.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 27: Operating Segments (cont'd)

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment 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.

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 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;
- intangible assets;
- exploration expenditure capitalised; and
- discontinuing operations.

f. Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

(i) Segment performance

	Used Battery		Residue Treatment		Total	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
Revenue						
External sales	28,573	10,744	14,450	17,192	43,023	27,936
Inter-segment sales	602	346	-	-	602	346
Total segment revenue	<u>29,175</u>	<u>11,090</u>	<u>14,450</u>	<u>17,192</u>	<u>43,625</u>	<u>28,282</u>

Reconciliation of Segment Revenue to Group Revenue

Corporate revenue	127	39
Inter-segment elimination	(602)	(346)
Total Group Revenue	<u>43,150</u>	<u>27,975</u>

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 27: Operating Segments (cont'd)**(i) Segment performance (cont'd)**

	Used Battery		Residue Treatment		Total	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
Segment net profit/(loss) before tax	2,836	(3,198)	209	204	3,045	(2,994)
<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					(2,341)	(1,780)
Amounts classified as other comprehensive income					(846)	(569)
Net Profit/(Loss) Before Tax from Continuing Operations					(142)	(5,343)

(ii) Segment assets

	Used battery		Residue treatment		Total	
	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000
Segment assets	22,068	15,815	24,145	20,774	46,213	36,589
Segment asset increases for the period						
- capital expenditure	490	284	183	148	673	432
<i>Reconciliation of Segment Assets to Group Assets</i>						
Inter-segment elimination					(12,718)	(15,342)
Unallocated assets:						
- Intangibles					663	663
- Others					6,029	3,895
Total group assets					40,187	25,805

(iii) Segment liabilities

Segment liabilities	21,044	18,637	11,860	9,434	32,904	28,071
<i>Reconciliation of Segment Liabilities to Group Liabilities</i>						
Inter-segment elimination					(16,974)	(20,019)
Unallocated liabilities:						
- Others					1,605	1,301
Total group liabilities					17,535	9,353

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 27: Operating Segments (cont'd)**(iv) Revenue by geographical region**

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

	2010	2009
	\$000	\$000
Australia/NZ	8,159	2,142
Europe	25,498	8,911
North America	3,007	10,230
Asia	6,486	6,692
Total revenue	<u>43,150</u>	<u>27,975</u>

(v) Assets by geographical region

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

Australia	<u>40,187</u>	<u>25,805</u>
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(vi) Major customers

The Group has a number of customers to whom it provides both products and services. The Group supplies a single external customer in the used battery recycling segment which accounts for 33% of external revenue (2009: 9%). The next most significant client accounts for 25% (2009: 16%) of external revenue.

Note 28: Cash Flow Information

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
a. Reconciliation of Cash Flows from Operations with Profit after income Tax				
Profit/(Loss) after income tax	477	(3,338)	767	(3,465)
Non-cash flows in profit:				
Depreciation	864	889	52	54
Effect of exchange rate fluctuations on cash held	211	24	-	4
Provision/(reversal) of impairment losses on loans to subsidiaries	-	-	(2,300)	2,297
Amortisation of financial guarantee	-	-	(36)	(34)
Unrealised (loss)/gain on derivatives	51	(51)	-	-
Equity-settled share-based payment transaction	261	215	161	154
Income tax benefit	-	-	(750)	-
(Profit)/Loss on sale of property, plant and equipment	(1)	-	4	-
Operating profit/(loss) before changes in working capital and provisions	<u>1,863</u>	<u>(2,261)</u>	<u>(2,102)</u>	<u>(990)</u>
Changes in assets and liabilities:				
(Increase)/decrease in trade and other receivables	(5,709)	2,435	(52)	197
(Increase)/decrease in inventories	(3,433)	2,981	-	-
(Increase)/decrease in deferred tax assets	(172)	(1,448)	752	(2,235)
Increase/(decrease) in trade and other payables	4,778	333	113	(54)
Increase/(decrease) in deferred taxes liabilities	403	-	(20)	-
Decrease in income taxes payable	-	(143)	-	(143)
Increase/(decrease) in provisions	1,133	(1,546)	92	81
Net cash flow from operations	<u>(1,137)</u>	<u>351</u>	<u>(1,217)</u>	<u>(3,144)</u>

b. Non-cash Financing

During the year the consolidated group acquired motor vehicle and equipment with an aggregate value of \$81,000 (2009: \$66,000) by means of finance leases. These acquisitions are not reflected in the cash flow statement.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 28: Cash Flow Information (cont'd)**c. Credit Standby Arrangements with Bank**

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Overdraft facility	500	500	-	-
Amount utilised	-	-	-	-
	<u>500</u>	<u>500</u>	<u>-</u>	<u>-</u>

Bank overdraft facility is arranged with the principle banker of the Group with general terms and conditions being set. The facility is subject to quarterly review. Interest rate is variable and subject to adjustment. At balance date the interest rate was 11.36% (2009: 8.01%).

d. Loan facility

	Consolidated Group		Parent Entity	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Import loan facility	3,500	3,500	-	-
Amount utilised	(1,835)	(935)	-	-
	<u>1,665</u>	<u>2,565</u>	<u>-</u>	<u>-</u>

Import loan facility is arranged with the principal banker of the Group with general terms and conditions being set. The facility is subject to quarterly review. Interest rate is variable and subject to adjustment. At balance date the interest rate was 3.15% (2009: 4.49%)

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 2008	18,760,000	\$0.1676
Expired	(480,000)	\$0.1676
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	-	-

No options were granted or exercised during the year.

The fair value of the options granted to employees is deemed to represent the value of the employee services received over the vesting period.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 29: Share-based Payments (cont'd)

The weighted average fair value of options granted on 3 December 2007 was \$0.0535. These values were calculated using the Hull-White option-pricing model applying the following inputs:

Weighted average exercise price:	\$0.1676
Weighted average life of the option:	2.5 years
Underlying share price:	\$0.16
Expected share price volatility:	48.3%
Expected dividends:	0.6%
Risk-free interest rate:	6.75%

Expenses Arising from Share based Payment Transactions

	2010	2009
	\$	\$
Total expenses arising from options recognised during the year as part of employee benefit expense	<u>261,000</u>	<u>215,000</u>

Note 30: Events after the Balance Sheet Date

A fully underwritten entitlement issue of options to shareholders was made in May 2010. The offer was withdrawn in July due to the termination of the underwriting agreement by the underwriter. The Company is looking for alternative funding arrangement to complete the finance of the secondary lead smelter project. The cost of this entitlement issue amounted to \$57,000 was expensed to the 2011 financial year income statement.

Except for the above issue of options, 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 2010**

Note 31: Related Party Transactions

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
a. Key Management Personnel				
Consultation fees were paid to PGM Refiners Pty Limited for technical research services provided to a controlled entity. Dr LD Jayaweera, a director, has significant influence over PGM Refiners Pty Limited	-	3,920	-	-
Sales commission was paid to Mr SH Kwan, a director, for providing marketing services to a controlled entity	14,843	1,791	-	-
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	682,912	-	-
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	-	6,500	-

b. Subsidiaries

Loans are made by the Company to wholly owned subsidiaries to fund their working capital. Loans outstanding between the Company and its subsidiaries have no fixed date of repayment and are non-interest bearing. During the financial year ended 30 June 2010, loans advanced to subsidiaries totalled \$875,000 (2009: loan repaid by subsidiaries \$1,613,000). These amounts are shown at current value without discount.

For the financial year ended 30 June 2010, the following loans have been recognised as receivable/payable from/to subsidiaries:

Subsidiary	Receivable	Impairment loss	Written off	Net amount
	\$000	\$000	\$000	\$000
Hydromet Operations Limited	22,877	19,776	-	3,101
Hydromet Operations (Southern) Limited	13,041	-	-	13,041
Hydromet Operations (Tasmania) Limited [^]	1	-	1	-
Hydromet Technologies Pty Limited [^]	5,577	-	5,577	-
Enviromet Operations Limited [^]	1,038	-	1,038	-
Hydromet Corporation Debenture Nominees Pty Limited	936	934	-	2
Hydromet Operations (NT) Pty Limited [^]	1	-	1	-
	43,471	20,710	6,617	16,144
	Payable	Impairment loss	Written off	Net amount
Minmet Trust	11,555	-	-	11,555
Mineral Estates Limited	2,310	-	-	2,310
Kia Pacific Gold Pty Limited	14	-	-	14
	13,879	-	-	13,879

[^]These dormant subsidiaries were deregistered voluntarily during the year. The outstanding loans due from these subsidiaries to the parent entity amounted to \$6,617,000 were written off against the provision for impairment.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 32: Financial Risk Management

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

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Group		Parent Entity	
		2010 \$000	2009 \$000	2010 \$000	2009 \$000
Financial Assets					
Cash and cash equivalents	9	4,450	2,908	2,936	788
Loans and receivables	10	10,447	4,835	16,144	14,292
Total Financial Assets		<u>14,897</u>	<u>7,743</u>	<u>19,080</u>	<u>15,080</u>
Financial Liabilities					
Financial liabilities at amortised cost					
- Trade and other payables	18,20	8,711	3,868	214	105
- Borrowings	19	3,012	2,243	14,707	15,304
- Derivative instruments	12	-	368	-	-
Total Financial Liabilities		<u>11,723</u>	<u>6,479</u>	<u>14,921</u>	<u>15,409</u>

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 risk management policies. 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 reports regularly to the board of directors on its activities.

Risk management policies are established to identify and analyse the risk faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The board oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group. The board is assisted in its oversight role by the management team. The management team undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the board.

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 counterparty 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, payment 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 10% upon the agreement on final assay of the goods sold.

Risk 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.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 32: Financial Risk Management (cont'd)

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, 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 through the provision of financial guarantees, as approved at Board level, given to parties securing the liabilities of certain subsidiaries (refer Note 20 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 North America given the majors customers are in those regions. Details with respect to credit risk of Trade and Other Receivables are provided in Note 10.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 10.

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with approved Board policy. Such policy requires that surplus funds are only invested with major Australian financial institutions.

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.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 32: Financial Risk Management (cont'd)**Financial Liability and Financial Asset Maturity Analysis**

	Within 1 Year		1 to 5 Years		Over 5 Years		Total Contractual Cash Flow	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Consolidated Group								
Financial liabilities due for payment								
Bank loans	1,847	944	-	-	-	-	1,847	944
Convertible notes	68	487	768	240	-	-	836	727
Finance lease liabilities	360	320	159	447	-	-	519	767
Trade and other payable (excluding estimated annual leave)	8,711	3,868	-	-	-	-	8,711	3,868
Commodity swaps	-	368	-	-	-	-	-	368
Total expected outflows	10,986	5,987	927	687	-	-	11,913	6,674
Financial assets – cash flows realisable								
Cash and cash equivalents	4,450	2,908	-	-	-	-	4,450	2,908
Trade and other receivables	10,447	4,835	-	-	-	-	10,447	4,835
Total anticipated inflows	14,897	7,743	-	-	-	-	14,897	7,743
Net (outflow)/inflow on financial instruments	3,911	1,756	(927)	(687)	-	-	2,984	1,069
Parent Entity								
Financial liabilities due for payment								
Amounts payable to subsidiaries	-	-	-	-	13,879	14,596	13,879	14,596
Convertible notes	68	487	768	240	-	-	836	727
Finance lease liabilities	81	34	72	80	-	-	153	114
Trade and other payable (excluding estimated annual leave)	182	105	-	-	-	-	182	105
Current tax liabilities	-	-	-	-	-	-	-	-
Total expected outflows	331	626	840	320	13,879	14,596	15,050	15,542
Financial assets – cash flows realisable								
Cash and cash equivalents	2,936	788	-	-	-	-	2,936	788
Trade and other receivables	1	11	-	-	-	-	1	11
Amounts receivable from subsidiaries	-	-	-	-	16,144	14,281	16,144	14,281
Total anticipated inflows	2,937	799	-	-	16,144	14,281	19,081	15,080
Net (outflow)/inflow on financial instruments	2,606	173	(840)	(320)	2,265	(315)	4,031	(462)

The periods in which cash flows related to cash flow hedges are expected to occur are as depicted in the above maturity analysis table. The period in which cash flows related to cash flow hedges are expected to affect profit or loss are as follows:

Consolidated Group	Within 1 Year		1 to 5 Years		Over 5 Years		Total Contractual Cash Flow	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Commodity swaps								
- Payable	-	368	-	-	-	-	-	368

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 32: Financial Risk Management (cont'd)*Financial Assets Pledged as Collateral*

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts. Refer to Note 19: Borrowings for further details.

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 the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments was:

	Consolidated		Parent entity	
	Carrying amount		Carrying amount	
	2010	2009	2010	2009
	\$000	\$000	\$000	\$000
Fixed rate instruments				
Financial liabilities	(3,012)	(2,243)	(828)	(708)
Floating rate instruments				
Financial assets	4,450	2,908	2,936	788

The Group does not account for any fixed rate financial liabilities at fair value through profit or loss and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

ii. Foreign exchange risk

The Company and Group are exposed to foreign exchange risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD). The currency in which these transactions primarily are denominated is U.S. dollars (USD).

Depending on the movement trend of the currencies, the Company and Group hedge a portion of their trade receivables and trade payables denominated in a foreign currency. The Company and Group use forward exchange contracts to hedge their currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

The principal amounts and interest on borrowings of the Group's USD bank loans, taken out by AUD functional currency Group entities, is expected to be matched by the cash flows generated by the underlying operations of the Group, primarily USD. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company and Group ensures that their net exposures are kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 32: Financial Risk Management (cont'd)

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. The foreign currency risk in the books of the parent entity is considered immaterial and is therefore not shown.

	Net financial assets/(liabilities) in AUD \$000					
	AUD	USD	Total AUD	AUD	USD	Total AUD
	2010			2009		
Consolidated						
Trade and other receivables	1,199	9,248	10,447	2,301	2,534	4,835
Loans and borrowings	(1,177)	(1,835)	(3,012)	(1,308)	(935)	(2,243)
Cash and cash equivalents	3,359	1,091	4,450	1,049	1,859	2,908
Trade and other payables	(3,776)	(6,365)	(10,141)	(1,795)	(2,441)	(4,236)
Balance sheet exposure	(395)	2,139	1,744	247	1,017	1,264
Parent Entity						
Trade and other receivables	1	-	1	11	-	11
Loans and borrowings	(828)	-	(828)	(708)	-	(708)
Cash and cash equivalents	2,901	35	2,936	750	38	788
Trade and other payables	(182)	-	(182)	(105)	-	(105)
Loans to/(from) subsidiaries, net	2,265	-	2,265	(315)	-	(315)
Balance sheet exposure	4,157	35	4,192	(367)	38	(329)

iii. Forward Exchange Contracts

The Group has open forward exchange contracts at balance date relating to financial assets. These 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 forward exchange contracts be entered into where financial assets are recognised. Contracts are taken out with terms that reflect the underlying settlement terms of the financial assets so that hedge ineffectiveness is minimised.

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. The parent entity does not have any contracts in place.

	Notional amount		Average Exchange Rate	
	2010	2009	2010	2009
	\$000	\$000	\$	\$
<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.

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 on sales and purchases that are determined according to commodity prices in post-sales/purchases quotation periods. The parent entity is not exposed to commodity price risk.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

Note 32: Financial Risk Management (cont'd)

Commodity future markets and economic forecasts are constantly monitored to determine whether to implement a hedging program. Where necessary, the Group hedges a portion of its forecast sales/purchases. The Group uses commodity swap transaction contracts to hedge its commodity price risk. All of the commodity swap transaction contracts have maturities of less than six months. The commodity swap transaction contracts are rolled over at maturity if necessary in order to match forecast sales/purchases. There were no hedges in place at balance date.

The following table summarises the notional amounts of the Groups commitment in commodity hedge contacts:

Consolidated Group	Notional Amounts		Average Price	
	2010	2009	2010	2009
Receive fixed and pay floating price of lead Settlement				
- less than 6 months	-	1,968	-	US\$1,452 per mt
Receive fixed and pay floating price of gold Settlement				
- less than 6 months	-	2,452	-	US\$947 per oz

Commodity swap 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 trade receivables from sales.

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 balance date 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		Parent Entity	
	Profit \$000	Equity \$000	Profit \$000	Equity \$000
Year ended 30 June 2010				
+/- 1% in interest rates	+/-44	+/-44	+/-29	+/-29
+/- 10% in \$A/\$US	+/-194	+/-194	+/-3	+/-3
+/- 10% in lead price/tonne	+/-583	+/-583	-	-
Year ended 30 June 2009				
+/- 1% in interest rates	+/-29	+/-29	+/-8	+/-8
+/- 10% in \$A/\$US	+/-92	+/-92	+/-3	+/-3
+/- 10% in lead price/tonne	+/-144	+/-144	-	-

*Net Fair Values***Fair value estimation**

The fair values of financial assets and financial liabilities are approximately their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

**HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010****Note 32: Financial Risk Management (cont'd)**

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (i.e. loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the Group.

Note 33: Reserves*Hedging Reserve*

The hedging reserve records revaluation of items designated as hedges.

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.

Equity Compensation Reserve

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

Asset Revaluation Reserve

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

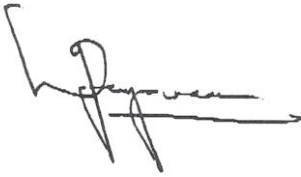
HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES

DIRECTOR'S DECLARATION

FOR THE YEAR ENDED 30 JUNE 2010

1. In the directors' opinion:
 - (a) the financial statements and notes set out on pages 26 to 75 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 company's and consolidated entity's financial position as at 30 June 2010 and of their 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.
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 2010 required by section 295A of the *Corporations Act 2001*.

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



Dr Lakshman Jayaweera
Director
25 August 2010



**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 financial report of the HydroMet Corporation Limited ("the company"), which comprises the Statement of financial position as at 30 June 2010, 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 76. 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1 the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements of the HydroMet Group and the separate financial statements of HydroMet Corporation Limited comply with International Financial Reporting Standards.

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 2010 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.

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. These Auditing 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.

HLB Newhouse Pty Ltd ABN 20 073 798 615

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HLB Newhouse is a member of  International. A world-wide organisation of accounting firms and business advisers.

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.

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 24 August 2010, 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 company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 2010. 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 2010 complies with section 300A of the *Corporations Act 2001*.



Andrew J Newhouse
Partner
HLB Newhouse
Wollongong, 25 August 2010



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

Additional information for listed public companies

The following additional information is required by the ASX Limited in respect of listed public companies only. Shareholders information set out below was applicable at 20 August 2010.

1. Shareholdings

a. Distribution of Shareholders

Category	Number of equity security holders	
	Ordinary shares	Convertible notes
1 - 1,000	241	-
1,001 - 10,000	529	-
10,001 - 100,000	972	1
100,001 and over	491	3
	2,233	4

b. The number of shareholdings held in less than marketable parcel is 947.

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

Shareholder	Number Ordinary
Jiangsu Chunxing Alloy Co., Ltd	49,924,000
Chemmet Pty Limited	28,549,498
Bradleys Polaris Pty Ltd	25,477,961

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. Unquoted equity securities

Convertible notes

Convertible notes were held by:

	Number of Convertible Notes Held	% Held of convertible notes
SSOR Pty Limited	250,000	33.3
Linkenholt Pty Limited	200,000	26.7
Wightholme Nominees Pty Limited	200,000	26.7
Jeapna Superannuation Fund	100,000	13.3
	<u>750,000</u>	<u>100.0</u>

Additional information for listed public companies (cont'd)

f. 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1 Jiangsu Chunxing Alloy Co. Ltd.	49,924,000	10.98
2 Bradleys Polaris Pty Ltd <Bradley S/F A/C>	25,477,961	5.61
3 Chemmet Pty Limited	22,176,998	4.88
4 Brian Gregory Wright & Wendy Joy Wright <B G Wright Super Fund A/C>	15,737,974	3.46
5 Mrs Patricia Gladys Wright	15,040,000	3.31
6 Penswood Pty Ltd <Penswood Super Fund Account>	15,002,000	3.30
7 HSBC Custody Nominees (Australia) Limited	9,585,687	2.11
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>	7,300,000	1.61
11 Minemet Australasia Pty Ltd	7,132,057	1.57
12 Mr Edmond Wing Kin Cheung & Mrs Eliza Siu Ling Cheung <Edmond & Eliza S/F A/C>	7,100,000	1.56
13 Chemmet Pty Limited <Super Fund A/C>	6,372,500	1.40
14 Mr Paul Guerin	6,168,853	1.36
15 Citicorp Nominees Pty Limited	5,599,947	1.23
16 Rizzo Super Pty Ltd <Rizzo Super Fund A/C>	5,180,000	1.14
17 Sylvan Securities Pty Ltd <The Gray Super Fund Account>	4,163,619	0.92
18 Mr Hugh McKee <McKee Super Fund A/C>	4,000,000	0.88
19 Universal Magazines Pty Ltd	3,875,000	0.85
20 HNS Investments Pty Ltd	3,703,938	0.81
	230,540,534	50.72

2. Stock Exchange Listing

Quotation has been granted for all the ordinary shares and options issued by the company on all Member Exchanges of the Australian Securities Exchange Limited (ASX).



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