

## Appendix 4 D

### Half year report

Name of entity: **HydroMet Corporation Limited**

#### 1. Details of the reporting period

Current period: 1 July 2011 – 31 December 2011

Previous corresponding period: 1 July 2010 – 31 December 2010

#### 2. Results for announcement to the market

		\$A'000		\$A'000
2.1 Revenues from ordinary activities	down	4,446	11.9%	to 32,994
2.2 Loss from ordinary activities after tax attributable to members	N/A	N/A	N/A%	to (1,880)
2.3 Net Loss attributable to members	N/A	N/A	N/A%	to (1,880)
2.4 Dividends	Amount per security	Franked amount per security		
Interim dividend	N/A	N/A		
Final dividend	N/A	N/A		
2.5 Record date for determining entitlements to dividends		N/A		

+ See chapter 19 for defined terms.

2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood:

The consolidated loss after tax attributable to the members of the company for the half year ended 31 December 2011 is \$1,880,000 (2010 profit \$1,330,000).

Key factors which affected the results and our activities were:

#### Used battery recycling

- \$0.5 million capitalised development cost of the lead smelter was written off. Excluding the write-off the Group's operating loss before income tax for the half year is \$2.2m.
- The plant processed 18,000mt of used batteries during the six months to December 2011. It represented 50% of its annual licensed capacity.
- Competition and price of used batteries increased during the period.
- Continued to experience strong demand for our lead products.
- More focus was put on customers located in the Asia Pacific region.
- The collapse of lead prices in August/September 2011 has significantly impact on the results.
- The strong Australian dollar added further damages to our revenue.
- The construction of the lead smelter at Tomago was deferred.

#### Residues treatment

- The Tomago plant achieved its selenium production target in the December half year.
- Demand on selenium was strong with price remained steady at high level during the period.
- Competition of selenium feed material intensified.
- Demand of tellurium remained but the price was softening during the period.

### 3. Net tangible assets per security

	31 December 2011	31 December 2010
Net tangible assets per share (cents)	4.38	4.71

### 4. Control gained or lost over entities during the period

N/A

### 5. Details of dividends/distributions

5.1	Date the dividend (distribution) is payable	N/A
5.2	+Record date to determine entitlements to the dividend (distribution)	N/A

+ See chapter 19 for defined terms.

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend	Date of payment
5.3	<b>Final dividend:</b> Current year	N/A	N/A	N/A	
5.4	Previous year	0.1 ¢	0.1 ¢	- ¢	11 November 2011
5.5	<b>Interim dividend:</b> Current year	- ¢	- ¢	- ¢	
5.6	Previous year	0.075 ¢	0.075 ¢	- ¢	17 February 2011

#### 6. Details of dividend reinvestment plan

N/A

#### 7. Details of associates and joint venture entities

N/A

#### 8. Accounting Standards used by foreign entities

N/A

#### 9. Qualification of audit/review

N/A

+ See chapter 19 for defined terms.

**Hydromet Corporation Limited**

ABN 71 002 802 646

**and Controlled Entities**

**Interim Financial Report**

**31 December 2011**

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### OFFICE AND OFFICERS

#### Principal Registered Office

201 Five Islands Road  
Unanderra NSW 2526

Telephone: 02 4271 1822  
Facsimile: 02 4271 6151  
[www.hydromet.com.au](http://www.hydromet.com.au)

#### Company Secretary

Mr Pipvide S Tang, MBA, CPA

#### Offices

##### Hydromet Corporation Limited Hydromet Operations (Southern) Limited

201 Five Islands Road  
Unanderra NSW 2526

Telephone: 02 4271 1822  
Facsimile: 02 4271 6151

##### Minmet Operations Pty Limited

25 School Drive  
Tomago NSW 2322

Telephone: 02 4964 8266  
Facsimile: 02 4966 5958

#### Location of Share Registry

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

Telephone: 1300 737 760  
Facsimile: 02 9290 9655  
[www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

#### Auditor

Andrew J Newhouse  
of HLB Newhouse  
Level 1  
65 Kembla Street  
Wollongong NSW 2500

Telephone: 02 4254 6500  
Facsimile: 02 4226 2371  
[www.hlbnewhouse.com.au](http://www.hlbnewhouse.com.au)

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### CONTENTS

	<b>Page</b>
Directors' report	4
Auditor's independence declaration	6
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the financial statements	11
Directors' declaration	17
Independent auditor's review report to the members	18

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2011.

#### Directors

The names of directors who held office during or since the end of the half-year:

Mr Timothy R Allen  
Dr Jeffrey M Chen (appointed 5 December 2011)  
Dr Lakshman D Jayaweera  
Mr Stephen H Kwan  
Mr Pipvide S Tang  
Mr Gregory W Wrightson (retired 31 December 2011)  
Mr Chun M Yang (resigned 5 December 2011)

#### Review of operations

##### Used battery recycling

- \$0.5 million capitalised development cost of the lead smelter was written off. Excluding the write-off the Group's operating loss before income tax for the half year is \$2.2m.
- The plant processed 18,000mt of used batteries during the six months to December 2011. It represented 50% of its annual licensed capacity.
- Competition and price of used batteries increased during the period.
- Continued to experience strong demand for our lead products.
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- The construction of the lead smelter at Tomago was deferred.

##### Residues treatment

- The Tomago plant achieved its selenium production target in the December half year.
- Demand for selenium was strong with the price remaining steady at a high level during the half-year period.
- Competition for selenium feed material intensified.
- Demand for tellurium remained but the price softened during the period.

##### Project progress

- Approval received from the authorities to install a lead melting and medium size smelting furnace at Unanderra site. Development of the technical aspect of the process is still underway.
- CRT glass experimental furnace was installed at the Tomago site and the development of the process was conducted during the period.
- Further study on recovering lead from CRT glass with the lead melting/smelting furnace continues.

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' REPORT (CONT'D)

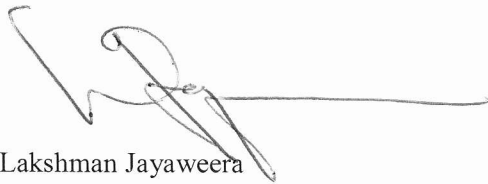
#### **Rounding of amounts**

The consolidated group has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the directors' report have been rounded off to the nearest \$1,000.

#### **Auditor's independence declaration**

The lead auditor's Independence Declaration under s 307C of the *Corporations Act 2001* is set out on page 6 for the half-year ended 31 December 2011.

This report is signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Dr Lakshman Jayaweera', with a long horizontal line extending to the right.

Dr Lakshman Jayaweera  
Chairperson and Managing Director

Dated this 21<sup>st</sup> day of February 2012

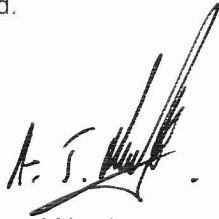
**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001**

**To the Directors of HydroMet Corporation Limited**

As lead auditor for the review of HydroMet Corporation Limited for the half-year ended 31 December 2011, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Andrew J Newhouse  
**HLB NEWHOUSE**

Wollongong, 21 February 2012

**HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Note	Consolidated Group	
		31.12.2011	31.12.2010
		\$000	\$000
<b>Revenue</b>		32,994	37,440
Other income		150	-
Change in inventories		(6,264)	2,802
Raw materials and consumables used		(20,284)	(27,771)
Other direct production costs		(4,384)	(4,043)
Employee benefits expenses		(4,021)	(3,672)
Depreciation and amortisation expenses		(478)	(453)
Net (loss)/gain on sale of property, plant and equipment		(3)	3
Finance costs		(89)	(192)
Effective portion of gain/(loss) on cash flow hedge		982	(1,283)
Impairment of property, plant and equipment		(500)	-
Other expenses		(838)	(921)
<b>(Loss)/Profit before income tax</b>		(2,735)	1,910
Income tax benefit/(expense)		855	(580)
<b>(Loss)/profit for the period</b>	2	(1,880)	1,330
<b>Other comprehensive expenses</b>			
Other comprehensive expense for the period, net of tax		-	-
Total comprehensive income attributable to members of the parent entity		(1,880)	1,330
<b>Earnings per share</b>			
<b>From continuing operations:</b>			
Basic earnings per share (cents)		(0.414)	0.293
Diluted earnings per share (cents)		(0.411)	0.294

The accompanying notes form part of these financial statements.

**HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2011**

	<b>Consolidated Group</b>	
	<b>31.12.2011</b>	<b>30.06.2011</b>
	<b>\$000</b>	<b>\$000</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,516	3,618
Trade and other receivables	10,723	7,659
Inventories	4,357	10,622
Derivatives	-	110
Other assets	286	90
<b>TOTAL CURRENT ASSETS</b>	<b>17,882</b>	<b>22,099</b>
<b>NON-CURRENT ASSETS</b>		
Deferred tax assets	3,170	2,387
Property, plant and equipment	13,015	13,600
Intangible assets	663	663
Other non-current assets	5	557
<b>TOTAL NON-CURRENT ASSETS</b>	<b>17,442</b>	<b>17,207</b>
<b>TOTAL ASSETS</b>	<b>35,324</b>	<b>39,306</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	6,754	5,867
Borrowings	6	5,796
Employee benefits	741	960
Deferred income	-	64
Short-term provisions	1,240	1,175
<b>TOTAL CURRENT LIABILITIES</b>	<b>12,229</b>	<b>13,862</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	6	154
Employee benefits	418	427
Deferred tax liabilities	1,429	1,474
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,989</b>	<b>2,055</b>
<b>TOTAL LIABILITIES</b>	<b>14,218</b>	<b>15,917</b>
<b>NET ASSETS</b>	<b>21,106</b>	<b>23,389</b>
<b>EQUITY</b>		
Issued capital	73,077	73,077
Reserves	2,563	2,512
Accumulated losses	(54,534)	(52,200)
<b>TOTAL EQUITY</b>	<b>21,106</b>	<b>23,389</b>

The accompanying notes form part of these financial statements.

**HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Ordinary share capital	Accumu- lated losses	Reserves			Total
			Hedging reserve	Assets revaluation reserve	Compound instrument equity reserve	
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Balance at 1.7.2010</b>	73,077	(53,890)	-	2,557	55	21,799
Profit for the period	-	1,330	-	-	-	1,330
<b>Total comprehensive income for the period</b>	-	1,330	-	-	-	1,330
<b>Transactions with owners, in their capacity as owners, and other transfers</b>						
Convertible notes redeemed					(33)	(33)
Dividend paid or provided for	-	(454)	-	-	-	(454)
<b>Total transactions with owners and other transfers</b>	-	(454)	-	-	(33)	(487)
<b>Balance at 31.12.2010</b>	<u>73,077</u>	<u>(53,014)</u>	<u>-</u>	<u>2,557</u>	<u>22</u>	<u>22,642</u>
<b>Balance at 1.7.2011</b>	73,077	(52,200)	(67)	2,557	22	23,389
Loss attributable to members of the parent entity	-	(1,880)	-	-	-	(1,880)
<b>Total comprehensive income for the period</b>	-	(1,880)	-	-	-	(1,880)
<b>Transactions with owners, in their capacity as owners, and other transfers</b>						
Convertible notes redeemed during the period	-	-	-	-	(16)	(16)
Transferred to profit or loss			67			67
Dividend paid or provided for	-	(454)	-	-	-	(454)
<b>Total transactions with owners and other transfers</b>	-	(454)	67	-	(16)	(403)
<b>Balance at 31.12.2011</b>	<u>73,077</u>	<u>(54,534)</u>	<u>-</u>	<u>2,557</u>	<u>6</u>	<u>21,106</u>

The accompanying notes form part of these financial statements.

**HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	<b>Consolidated Group</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>\$000</b>	<b>\$000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	30,951	34,675
Payments to suppliers and employees	(28,646)	(35,088)
Finance costs	(89)	(95)
Interest received	26	51
<b>Net cash provided by/(used in) operating activities</b>	<b>2,242</b>	<b>(457)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(401)	(678)
Purchase of non-current assets	(38)	-
Proceeds from sale of property, plant and equipment	6	11
<b>Net cash used in investing activities</b>	<b>(433)</b>	<b>(667)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of finance lease liabilities	(400)	(370)
Dividends paid by parent entity	(454)	(454)
Repayments of borrowings	(2,405)	(450)
Proceeds from borrowings	475	3,836
<b>Net cash provided by financing activities</b>	<b>(2,784)</b>	<b>2,562</b>
Net increase/(decrease) in cash held	(975)	1,438
Cash and cash equivalents at beginning of period	3,618	4,450
Effect of exchange rate on cash holdings in foreign currencies	(127)	(295)
Cash and cash equivalents at end of period	<b>2,516</b>	<b>5,593</b>

The accompanying notes form part of these financial statements.

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

#### Note 1: Summary of significant accounting policies

##### Basis of preparation

These general purpose interim financial statements for the half-year period ended 31 December 2011 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Hydromet Corporation Limited and its controlled entities (referred to as the Consolidated Group or the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2011, together with any public announcements made during the following half-year.

##### Accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

##### New and revised accounting requirements applicable to the current half-year reporting period

For the half-year reporting period to 31 December 2011, a number of new and revised Accounting Standard requirements became mandatory for the first time. The Group's assessment of the impact of these new and revised Accounting Standards is that they will result in no significant changes to the amounts recognised or matters disclosed in the half-yearly report.

#### Note 2: Profit for the period

	Consolidated Group	
	31.12.2011	31.12.2010
	\$000	\$000
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Effective portion of profit/(loss) on cash flow hedge	982	(1,283)
Impairment of plant under construction	<u>(500)</u>	<u>-</u>

During the period, the directors decided to defer the plan to build the lead smelter at the Tomago site due to lack of funds and the risks associated with the project under the current economic conditions. Instead, a melting facility at the Unanderra site was proposed and approved by the authorities to replace the lead smelter plan. Accordingly, part of the capitalised development costs of the lead smelter were impaired during the period, and the costs which will contribute to the Unanderra melting facility remains capitalised as part of the property, plant and equipment.

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

#### Note 3: Dividends

	Consolidated Group		
	31.12.2011 \$000	30.06.2011	31.12.2010 \$000
<b>Distribution paid/provided for</b>			
Final 2010 fully franked ordinary dividend paid on 15 October 2010 of 0.1 cent per share franked at the tax rate of 30% (2009: 30%)	-		454
Interim 2011 fully franked ordinary dividend declared on 17 February 2011 of 0.075 cent per share franked at the tax rate of 30% (2010: 30%) and recognised in the six months to 30 June 2011.	-	341	
Final 2011 fully franked ordinary dividend paid on 11 November 2011 (post year-end) of 0.1 cent per share franked at the tax rate of 30% (2010: 30%)	454		-
	<u>454</u>		<u>795</u>

#### Note 4: Operating Segments

##### Segment information

##### Identification of reportable segments

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

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

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

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

##### Types of products and services by segment

###### (i) Used batteries recycling

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

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

#### **Note 4: Operating Segments (cont'd)**

##### (ii) Residue treatment

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

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

#### **Basis of accounting for purposes of reporting by operating segments**

##### (a) Accounting policies adopted

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

##### (b) Inter-segment transactions

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

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

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

##### (c) Segment assets

In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location. 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.

Intangible assets have not been allocated to operating segments.

##### (d) Segment liabilities

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

**HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

**Note 4: Operating Segments (cont'd)**

(e) Unallocated items

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

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

**(i) Segment performance**

	<b>Used Battery</b>		<b>Residue Treatment</b>		<b>Total</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Revenue</b>						
External sales	16,084	21,496	16,884	15,885	32,968	37,381
Inter-segment sales	46	210	-	-	46	210
Total segment revenue	<u>16,130</u>	<u>21,706</u>	<u>16,884</u>	<u>15,885</u>	<u>33,014</u>	<u>37,591</u>
Corporate revenue					26	59
Inter-segment elimination					(46)	(210)
Total Group revenue					<u>32,994</u>	<u>37,440</u>
<b>Reconciliation of segment result to Group net profit/(loss) before tax</b>						
Segment net profit/(loss) before tax	(2,819)	2,918	1,474	1,573	(1,345)	4,491
Amounts not included in segment result but reviewed by Board						
- Corporate charges					(1,390)	(1,298)
Net profit/(loss) before tax from continuing operations					<u>(2,735)</u>	<u>3,193</u>

**HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

**Note 4: Operating Segments (cont'd)**

**(ii) Segment assets**

	<b>Used Battery \$000</b>	<b>Residue Treatment \$000</b>	<b>Total \$000</b>
Segment assets	18,826	26,534	45,360
Inter-segment elimination			(14,646)
Unallocated assets			4,612
Closing balance 31 December 2011			<u>35,326</u>

**Note 5: Other Non-Current Assets**

	<b>Consolidated Group</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>\$000</b>	<b>\$000</b>
Exploration Expenditure Capitalised		
- Stanton project	557	557
- Other	37	-
	<u>594</u>	<u>557</u>

For further information on subsequent events refer to note 8

**Note 6: Borrowing**

	<b>Consolidated Group</b>	
	<b>31.12.2011</b>	<b>31.12.2010</b>
	<b>\$000</b>	<b>\$000</b>
<b>Borrowings Current</b>		
<i>Secured liabilities</i>		
Bank loans	3,127	5,333
Lease liabilities	102	188
Insurance Premium Finance	174	-
	<u>3,403</u>	<u>5,521</u>
<i>Unsecured liabilities</i>		
Convertible notes	91	275
	<u>91</u>	<u>275</u>
Total current borrowings	<u>3,494</u>	<u>5,796</u>
<b>Borrowings Non-Current</b>		
Lease Liabilities	142	154
Total Non-Current borrowings	142	154

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

#### **Note 6: Borrowings (cont'd)**

The bank loans are secured over a registered second fixed and floating charge over all assets of HydroMet Corporation Limited and first fixed and floating charges over the assets of HydroMet Operations (Southern) Limited, Mineral Estates Pty Limited, HydroMet Operations Limited and MinMet Operations Pty Limited. Covenants imposed by the bank require the Group to maintain:

- (i) capital ratio at a minimum of 30%; and
- (ii) interest coverage of not less than two times.

As at 31 December 2011;

- (i) The Group has met the capital ratio covenant; and
- (ii) Due to a loss for the half-year, the Group has breached the interest coverage covenant.

The Group has sufficient working capital to repay all bank loans should the bank request repayment.

#### **Note 7: Contingent Liabilities**

There has been no change in contingent liabilities since the last annual reporting date.

#### **Note 8: Events Subsequent to Reporting Date**

Other than the following, the directors are not aware of any significant events since the end of the interim period.

On 23 January 2012 the Company offered a Share Purchase Plan to eligible shareholders to subscribe for up to 136,350,000 new ordinary shares to be issued at 3.8 cents per share to raise a maximum of \$5,181,300. The Plan is closing on 24 February 2012.

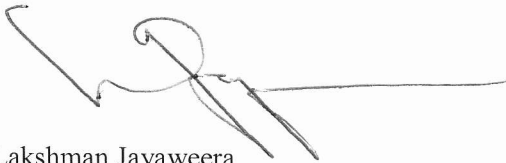
On 31 January 2012 one of the Group's subsidiaries entered into an option agreement to sell the Stanton Mining Lease to an unrelated third party. An option fee of \$20,000 was received. The option expires on 1 October 2012. Completion of the agreement following the exercise of the option is conditional upon satisfaction of several conditions which includes the party being admitted to the official listing on the Australian Securities Exchange. When the option is exercised and the sale is completed, the Group will receive vendor shares of the purchasing party with face value of \$2,000,000.

## HYDROMET CORPORATION LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Hydromet Corporation Limited, the directors of the company declare that:

1. The financial statements and notes, as set out on pages 4 to 15, are in accordance with the *Corporations Act 2001* including:
  - a) complying with Accounting Standard AASB 134: Interim Financial Reporting, and
  - b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



Dr Lakshman Jayaweera  
Chairperson and Managing Director

Dated this 21<sup>st</sup> day of February 2012

## **INDEPENDENT AUDITOR'S REVIEW REPORT**

### **To the Members of HydroMet Corporation Limited**

#### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of HydroMet Corporation Limited and its controlled entities ("the consolidated entity" or "Group") which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of accounting policies and other selected explanatory notes and the directors' declaration for the Group.

#### *Directors' Responsibility for the Half-year Financial Report*

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

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the consolidated entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

*Matters Relating to the Electronic Presentation of the Review Report*

This review report relates to the financial report of the consolidated entity for the half-year ended 31 December 2011 included on the web site of HydroMet Corporation Limited. 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 review report refers only to the half-year financial 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 reviewed financial report to confirm the information included in the reviewed financial report presented on the web site.

*Independence*

In conducting our review, 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 21 February 2011, would be in the same terms if provided to the directors as at the time of this auditor's review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of HydroMet Corporation Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134: Interim financial Reporting and the Corporations Regulations 2001.



Andrew J Newhouse  
**HLB NEWHOUSE**

Wollongong, 21 February 2012