HYDROMET CORPORATION LIMITED

A.B.N. 71 002 802 646

Processing for a Cleaner Environment

ANNUAL REPORT 2009

HydroMet
CORPORATION LIMITED
A.B.N. 71 002 802 646

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

OFFICE AND OFFICERS

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Company Secretary
Mr Pipvide S Tang, MBA, CPA

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HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2009

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

The downturn in global financial markets, along with the collapse of commodity prices during the year, has unfortunately adversely affected Hydromet's profitability in the 2009 financial year.

During the year, the company's performance resulted in an after tax loss of $3.3 million from a total revenue base of $27.9 million. This compares to after tax profits of $2.3 million and $2.6 million in 2006/07 and 2007/08 respectively. The loss comprises $2.8 million generated in the six months to December 2008, the most volatile period, and $0.5 million from the second half of the financial year. The disappointing result was predominantly due to a significant lead stock write down in the first half and fluctuations of the Australian Dollar. It is however, pleasing to report that signs of improvement have emerged in the second half of the year, particularly in the June quarter, where a modest profit was realised. It appears at this stage, that this promising trend has so far flowed on to the 2010 financial year as well.

A detailed review of the operation for the year is outlined in the Directors' Report with further explanation of the major factors which have influenced this result and the steps taken to manage those issues.

Going forward, with the recent evidence of recovery in commodity prices, the improvement will have a positive impact on our core business activities. While we remain cautious of the global economic climate and domestic conditions, we believe the solid foundation of the company will enable us to weather the present conditions and place us in a strong position as we emerge from the affects of the global downturn. Introduction of the secondary lead smelter is our major focus to bring substantial long term flexibility and benefit for the future.

With regard to our battery recycling activities, we are now a major player in the lead recycling field in Australia. Our recycling plant located at Unanderra NSW is operating according to plan and we have established a number of long term customers for our lead products both in Europe and Asia and occasionally within Australia. Our recently joined strategic shareholder, Chunxing Group based in China, will become a prominent customer for our lead products and ultimately lead metal from the smelter. Their technical and practical expertise in lead production will also be invaluable as we progress to the Tomago (Newcastle) lead smelter.

We believe, the lead business will continue to prosper in the years ahead and see the following favourable factors as the key to our future success.

1. We have a well established, state of the art battery recycling facility to produce ideal lead smelter feed with low capital and operating cost and further room to expand in Australia.

2. Our products generated from the battery recycling plant are sought after by our lead smelter customers worldwide.

3. Our recent share placement with the Chunxing Group in China, one of the largest secondary lead smelting operators in China, has strengthened our overall position and provided another significant outlet for our lead products.

4. We have introduced an in-house used lead acid battery sourcing operation to purchase scrap batteries throughout Australia. This eliminates reliance on traditional middle man scrap dealers and agents resulting in a lower cost of feed and the opportunity to be more competitive in acquiring valuable feed for the smelter.

5. We have commenced the production of lead nitrate from lead extracted from batteries to supply to the gold mining industry. Lead nitrate is used as an important reagent in the cyanidation process of gold recovery. This diversification venture appears an attractive business to Hydromet, returning premium value for lead used in the manufacturing process.

6. Having obtained DA approval to install a secondary lead smelter at our Tomago (Newcastle NSW) site and our continued commitment to proceed with the smelter as soon as practicable.

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

The global events of 2008/09 and our continued development of the battery recycling project at Unanderra, clearly emphasise the critical importance of the secondary lead smelter in extracting the full value of lead recovered from batteries processed.

In January 2009, we received approval for a 20,000 tonne per annum secondary lead smelter planned for our Tomago site. While conditions for commodities, including lead, have been volatile in the past twelve months, we believe that once in operation with the existing infrastructure at the Tomago site along with specific selection of world class smelting equipment, Hydromet will be the lowest capital and operating cost secondary lead smelting facility in Australia.

Funding for the smelter (capital estimated to be A$10 million to A$12 million) is expected to be provided from a combination of bank finance and share purchase plan (SPP) subscription which we plan to offer to all shareholders in near future. We are confident of firm shareholder support for this important advancement for Hydromet. Subject to the success of the SPP, we anticipate that the smelter will commence commissioning in the December quarter 2010.

With regard to our selenium, tellurium and precious metal activities in Tomago, we have experienced recent recovery in the related metal prices along with increased demand for both selenium and tellurium. With recent growth in the tellurium consumption used in cadmium telluride production for solar cell modules, Hydromet has entered into an agreement to supply tellurium to a major international solar module producer. If demand for tellurium continues to increase as predicted, we anticipate further strengthening of this business activity. Our strategy is to expand the selenium, tellurium and precious metals activities sourcing additional residue feeds worldwide to take full advantage of our processing facilities at Tomago. As Hydromet is recognised around the world as a unique processor of these valuable residues, we believe that further expansion of this activity is possible.

Hydromet is generating revenues from a number of metal based activities, including lead metals, lead chemicals, selenium, tellurium and precious metals in addition to treatment fees from residue suppliers. Further diversification within these metal sources will add increased value and profitability to the group placing Hydromet in a favourable position to face future challenges and to confidently grow the company's sustainability for the future.

Subject to future favourable conditions, Hydromet will return to dividends as profits emerge in the years ahead.

On behalf of the board, I would like to thank all management and staff at Hydromet for their continued effort and dedication particularly during the difficult year we have faced and look forward to their ongoing valuable contribution. I would also like to extend my gratitude to our dedicated shareholders for their support.

Dr Lakshman Jayaweera
Chairperson
24 August 2009

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

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

BOARD OF DIRECTORS

Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, 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. It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for the operation and administration of the Company to the executive chairperson, managing director and executive management. The functions that delegated included establishing and implementation of risk management system; environmental control and compliance and occupational health and safety issues. Responsibilities are delineated by formal authority delegations.

The list of the matters reserved for the board and delegated to senior executives are available to be viewed in the office of the company.

Board processes

To assist in the execution of its responsibilities, the board has established an audit and remuneration committee which operates under a charter approved by the board. The charter and the operating procedures are reviewed on a regular basis. The board has also established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards. The charter is available at the office of the company.

The full board currently holds six scheduled meetings each year, plus any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the chairperson, managing director and company secretary. Standing items include the managing director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

Director education

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. 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.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, 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.

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

Composition of the board
The names of the directors of the Company in office at the date of this report, specifying which are independent, are set out in the directors' report on page 13 of this report. The 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.

Due to the size of the Company, resources available and the specialised nature of the Company's business, the Company did not meet Corporate Governance Council recommendations in the following areas:
- the board comprises two independent non-executive directors, a non-executive director and three executive directors
- an executive director is the chairperson; and
- the audit and remuneration committee is responsible for the functions of the nominated committee and consists of two independent non-executive directors as members.

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.*

AUDIT AND REMUNERATION COMMITTEE
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. All members 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.

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 external auditors, the managing director and director of finance, are invited to audit and remuneration committee meetings at the discretion of the committee. The committee met twice during the year and the committee members' attendance record is disclosed in the table of directors' meetings on page 14.

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

The managing director and the director of finance declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended 30 June 2009 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The external auditor met with the audit and remuneration committee and the board of directors 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 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 on page 17 of this report.

The audit and remuneration committee also 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.

The audit and remuneration committee also 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. 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.

The responsibilities of the audit and remuneration committee include:

- reviewing 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;
- assessing corporate risk assessment processes;
- assessing 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
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Securities Exchange and financial institutions.

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

The audit and remuneration committee 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.

RISK MANAGEMENT
Oversight of the risk management system
The board oversees the establishment, implementation and annual review of the Company's risk management system. Management has established and implemented the risk management system for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group. 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.

Risk profile
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.

Risk management and compliance and control
The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. 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 Note 33 of 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).

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.

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. There has been no material non-compliance in relation to these licences' requirements during the financial year.

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.

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

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 Note 32 to the financial statements.

Code of conduct
The Group has advised each director, manager and employee that they must comply with the Ethical Standards Policy. The policy is available to be viewed in 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
- reporting of unethical behaviour.

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

Trading in general Company securities by directors and employees
The key elements of the Trading in General Company Securities by Directors and Employees Policy set out in the Ethical Standards 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 the 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.

COMMUNICATION WITH SHAREHOLDERS
The board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters 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. In summary, the Continuous Disclosure 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 full annual financial report is available to all shareholders;
- the half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report 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;
- 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;
- 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.

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

The directors present their report together with the financial statements of the Group, being the Company and its controlled entities ("the consolidated group"), for the financial year ended 30 June 2009.

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 after tax loss of the consolidated group amounted to $3,338,000. Although 2009 has been a difficult year for the well documented global business conditions and significantly depressed commodity prices, Hydromet's productivity and output for the twelve months performed in accordance with our expectations.

All activities across the group were adversely affected by the volatility of the metals markets and flow on to metal products generated from lead, selenium and precious metals activities. This was particularly the case for the first nine months of the financial year under review. The strong performance of the AUD also affected profitability during the year. We have experienced improved business conditions since April 2009 with the lead price lifting from the December 2008 low point to a more favourable level by the end of June 2009.

Review of Operations
i. Used lead acid battery processing
- The battery recycling plant at Unanderra has performed in line with our planned steady uplift in production rates during the year;
- we have established a wider customer base for our lead products with the majority of production exported to customers in Germany, Malaysia, China, India and Sri Lanka;
- in May 2009, we commenced direct market access to scrap battery collectors and generators enabling Hydromet to operate independently of the scrap battery traders and to establish a reliable network source for existing requirements and in preparation for the increased smelter volume in the future;
- in April 2009, we successfully conducted plant trials to produce lead nitrate from lead metal generated by our battery recycling facility. Lead nitrate is used in the mining sector and is imported predominantly from China. Production of lead nitrate will provide diversification of our lead recycling project and profitability from our competitively costed lead input. We expect to enter the domestic market during the second half of 2009; and
- our plan for the next financial year is to continue to increase productivity and widen our lead customer base in preparation for our approved secondary smelter operation which is expected to commence by January 2011.

ii. Industrial residues processing
- During the 2009 financial year our metals recovery activities at Tomago site continued with emphasis on tellurium and precious metals recovery;
- the principal activity remained the processing of industrial residues and the manufacturing of selenium to established customers in China;
- tellurium emerged as a minor metal of interest during the year for development of its application in solar cell technology; and
- we continued to recover precious metals on a toll basis for some clients and also purchased parcels for recovery on HydroMet's behalf.

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

Financial Position
The net assets of the consolidated group have decreased by $499,000 at 30 June 2008 to $16,452,000 at 30 June 2009. This decrease is largely due to the following factors:

- operating results of the Group; and
- proceeds from share issues raising $2,997,000.

The consolidated group has reduced its borrowings by $1,307,000 while maintaining a healthy working capital ratio. The Group's working capital, being current assets less current liabilities, has reduced from $5,492,000 at 30 June 2008 to $3,230,000 at 30 June 2009.

The directors believe the Group is in a stable financial position to face the current economical turmoil.

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 3 December 2008, the Group issued $100,000 12% debentures maturing 2 December 2009 to provide additional working capital.

ii. On 16 March 2009, the Company issued $100,000 10% convertible notes maturing 15 March 2012 to provide additional working capital. At the holder's option, the notes can be converted to ordinary shares of the Company at the price of 8 cents per share at any time after the twelfth month from the date of their issue.

iii. On 31 March 2009, with agreement with the debenture holder, the $100,000 12% debentures issued on 3 December 2008 were redeemed.

iv. On 1 April 2009, the Company issued $100,000 10% convertible notes maturing 31 March 2012 with the same terms as mentioned in ii above.

v. On 5 May 2009, the Company issued 10,000 ordinary shares at $0.17 per share. The shares were issued on the exercising of listed options by option holders.

vi. On 11 May 2009, the Company issued 49,924,000 ordinary shares at $0.06 per share under a private placement to a sophisticated investor. Funds raised are for working capital purposes.

Dividends Paid or Recommended
Ordinary dividend of $332,828 was paid on 14 November 2008, as recommended in last year's report.

No dividends were declared or recommended during the financial year.

After Balance Date Events
No matters or circumstances have arisen since the end of the financial year up to the date of this report 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.

Future Development, Prospects and Business Strategies
To improve the consolidated group's profit and maximise shareholder wealth, the lead secondary smelter project is under development with the following details:
- We received approval for our 20,000 tonne per annum secondary lead smelter for the Tomago site in January 2009;
- the preferred technology and equipment short list was completed in March 2009;
- final equipment and facility details are under preparation with firm recommendations expected in August 2009;
- funding options are also in final assessment; and
- once funding arrangements are in place we expect the smelter to commence 12 months from placement of equipment orders. At this stage, we believe the start up will take place by January 2011.

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

These developments, together with the current strategy of continuous improvement and adherence to quality control in existing markets, are expected to assist in the achievement of the consolidated group's long-term goals and development of new business opportunities. Due to the present uncertainty in world markets, it is not possible at this stage to predict future results of the Group.

Environmental Issues
The Group's operations are subject to licence requirements issued under the *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.

Information on Directors

Lakshman D Jayaweera	Chairperson (Executive)
Qualifications	Master of Science and Doctor of Philosophy
Experience	Appointed Chairperson in 2001. Appointed Deputy Chairperson in 2000. Board member since 1991.
Special Responsibilities	Responsibilities include technical and business development.
Directorships held in other listed entities during the three years prior to the current year	None
Timothy R Allen	Deputy Chairperson (Independent non-executive)
Qualifications	Member of the Securities Institute of Australia
Experience	Appointed Deputy Chairperson in 2006. Board member since 2001.
Special Responsibilities	Member of the Audit and Remuneration Committee.
Directorships held in other listed entities during the three years prior to the current year	Current chairperson of Central West Gold NL.
Gregory W Wrightson	Managing Director (Executive)
Qualifications	Over 25 years experience in chemical manufacturing.
Experience	Appointed Managing Director in 2000. Board member since 1998.
Special Responsibilities	Responsibilities include operations and business development.
Directorships held in other listed entities during the three years prior to the current year	None
Stephen H Kwan	Director (Independent non-executive)
Qualifications	Master of Philosophy
Experience	Board member since 1991.
Special Responsibilities	Member of the Audit and Remuneration Committee.
Directorships held in other listed entities during the three years prior to the current year	None

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

Pipvide S Tang	Director - Finance (Executive)
Qualifications	Master of Business Administration and Certified Public Accountant
Experience	Board member since 1997.
Special Responsibilities	Responsibilities include finance and company secretarial functions.
Directorships held in other listed entities during the three years prior to the current year	Former director of Optima ICM Limited.

Chun M Yang	Director (Non-executive)
Qualifications	Over 30 years experience in chemical engineering and recycling of used lead acid battery.
Experience	Appointed Director on 11 May 2009.
Special Responsibilities	None
Directorships held in other listed entities during the three years prior to the current year	None

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

Meetings of Directors
During the financial year, 11 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	8	8	-	-
TR Allen	8	8	3	3
GW Wrightson	8	8	-	-
SH Kwan	8	8	3	3
PS Tang	8	8	-	-
CM Yang	1	1	-	-

Indemnifying and insurance of 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 or improper use of information or position to gain a personal advantage. The total premiums paid were $33,711 and the insurance policies do not contain details of the premiums paid in respect of individual officers of the Company.

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

Directors' interests
The relevant interest of each director in the shares and options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Hydromet Corporation Limited	
	Ordinary shares	**Options over ordinary shares**
Dr LD Jayaweera	27,799,498	2,050,000
Mr TR Allen	350,000	2,025,000
Mr GW Wrightson	1,138,300	2,030,000
Mr SH Kwan	46,000	2,000,000
Mr PS Tang	2,959,000	2,050,000
Mr CM Yang	49,924,000	-

Options
At the date of this report, the unissued ordinary shares of Hydromet Corporation Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under option
3 December 2007	30 June 2010	$0.1676	18,280,000
7 May 2008	30 June 2010	$0.17	8,760,000
			27,040,000

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

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 2009, the following ordinary shares of Hydromet Corporation Limited were issued on the exercise of options granted. No further shares have been issued since year end. No amounts are unpaid on any of the shares.

	Grant Date	Exercise Price	Number of Shares issued
Listed options	7 May 2008	$0.17	10,000

No person entitled to exercise the 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.

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

Non-audit Services
The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with *APES 110: Code of Ethics for professional Accountants* set by the Accounting professional and Ethical Standards Board.

The following fees were paid or payable to KPMG for non-audit services provided during the year ended 30 June 2009:

	$
Taxation services	
KPMG Australia	34,940
KPMG New Zealand	6,952
	41,892

Auditor's Independence Declaration
The lead auditor's independence declaration for the year ended 30 June 2009 has been received and copy is set out on page 23 of this financial report.

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

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

Principles of compensation
Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the Group. During the financial, year the Company and the Group employed two executives who are not directors of the Company and the Group.

Compensation levels for key management personnel and secretaries of the Company and key management personnel of the Group, are competitively set to attract and retain appropriately qualified and experienced directors and executives. The audit and remuneration committee advises the board on the appropriateness of compensation packages of both the Company and the Group given trends in comparative companies locally and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segment's performance; and
- the Group's performance including:
    - the Group's earnings;
    - the growth in share price and delivering constant returns on shareholder wealth; and
    - the amount of incentives within each key management person's compensation.

Compensation packages include fixed compensation and long-term incentives.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel and contributes statutory superannuation to post-employment defined contribution superannuation plans nominated by the personnel. The plans are administered by independent corporate trustees.

Fixed compensation
Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the audit and remuneration committee through a process that considers individual, segment and overall performance of the Group and competitiveness in the market place. A senior executive's compensation is also reviewed on promotion.

Long-term incentive
Options were issued on 3 December 2007 under the Executive Share Option Plan (ExSOP) (made in accordance with thresholds set in plans approved by shareholders at the 2002 AGM) which provided for directors to receive up to an aggregate of 10,000,000 options over ordinary shares for no consideration. The options issued on 3 December 2007 had an exercise price of 16.76 cents and expire on the earlier of 30 June 2010 or the date a director ceases office in the Company. The price of shares on the date of granting the options was 16 cents. There were differing vesting dates. 5,000,000 options granted are exercisable from the date of grant. 2,500,000 options are exercisable from 1 July 2008 and 2,500,000 options are exercisable from 1 July 2009. The ability to exercise the options was not conditional on the consolidated entity achieving certain performance hurdles.

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

No options have been exercised during the financial year.

The audit and remuneration committee considers that the above compensation structure is generating the desired outcome. The evidence of this is firstly, the Company has been able to maintain a very stable key management team in the past few years and secondly, the Company has benefited from this with improved performance in terms of widening customer base, plant productivity and sourcing of feed materials.

Consequences of performance on shareholders wealth
In considering the Group's performance and benefits for shareholders wealth, the audit and remuneration committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2009	2008	2007	2006	2005
	$000	$000	$000	$000	$000
Revenue	27,923	34,148	20,005	13,564	16,224
Net profit/(loss)	(3,338)	2,556	2,255	(875)	2,021
Share price at year-end (cents)	4.1	7.8	7.2	4.5	6.1
Dividends paid and payable (cents)	-	0.2	0.1	-	-
Return on capital employed	(19.99)%	17.24%	20.78%	(9.27)%	21.31%

Net profit amounts for 2005 were calculated in accordance with previous Australian GAAP. Net profit/(loss) amounts for 2006 to 2009 have been calculated in accordance with Australian Accounting Standards (AASBs).

Dividends, changes in share price, and return of capital are included in the total shareholder return calculation which is one of the performance criteria assessed for key management personnel's compensation.

From 2005 to 2008 the Group's profit from ordinary activities after income tax has grown at an average rate per annum of over 8 percent. During the same period average key management personnel compensation has grown by approximately 22 per cent per annum. The overall level of key management personnel's compensation was reduced by 13% in 2009.

Other benefits
Key management personnel can receive non-cash benefits, as part of the terms and conditions of their appointment. Non-cash benefits typically include provision of fully maintained motor vehicles, payment of insurance premiums in respect of directors' and officers' liability and legal expense insurance contracts, and the Company pays fringe benefits tax on these benefits, where applicable.

Non-executive directors
Total compensation for all non-executive directors, last voted upon by shareholders at the 2004 AGM, is not to exceed $200,000 per annum and is set based on reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently up to $50,000 per annum. Non-executive directors also receive a base fee of $5,000 per annum if they are appointed as directors of subsidiary companies. The chairperson and committee members receive no extra fees. Directors' fees cover all main board activities and membership of committees.

Other than the share options issued under ExSOP approved by shareholders at the 2002 AGM, non-executive directors receive no performance related remuneration.

Non-executive directors may receive additional payments for services required by the Company which are outside normal board and committee activities.

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

All 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*.

Employment Details of Members of Key Management Personnel and Other Executives
The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group, and to the extent different, among the two 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 2009 and any change during the year	Contract details (duration & termination)	Proportions of elements of remuneration related to performance Options %	Proportions of elements of remuneration not related to performance Fixed Salary/ Fees %	Total %
Dr LD Jayaweera	Chairperson (Executive)	3 year contract from 1 July 2009. Refer Note A.	7.8	92.2	100
Mr TR Allen	Deputy Chairperson (Non-executive)	No fixed term. Refer Note B.	23.7	76.3	100
Mr GW Wrightson	Managing Director (Executive)	3 year contract from 1 January 2009. Refer Note A.	7.6	92.4	100
Mr PS Tang	Finance Director (Executive)	3 year contract from 1 July 2009. Refer Note A.	11.0	89.0	100
Mr SH Kwan	Director (Non-executive)	No fixed term. Refer Note B.	27.3	72.7	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 require to terminate. Note C.	4.0	96.0	100
Mr BJ Wyborn	Site Manager	No fixed term. 2 months notice required to terminate. Note C.	3.7	96.3	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 month base salary received by them prior to the retirement or termination of office.

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 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*.

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.

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

Remuneration details for the Year Ended 30 June 2009

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

Table of Benefit and Payments for the Year ended 30 June 2009

		Short-term benefits			Post-employment benefit		Long – term benefit	Other compen -sation	Equity-settled Share-based payments	
		Salary, fees & leave $	Non-Monet-ary $	Total $	Super-annuat-ion $	Retire-Ment** $	Long service leave $	Insur-ance Premium $	Options $	Total $
Group Key Management										
Dr LD Jayaweera	2009	239,353	29,608	268,961	21,548	13,308	5,270	7,212	26,753	343,052
	2008	237,059	35,860	272,919	20,700	8,335	14,788	6,949	53,505	377,196
Mr TR Allen	2009	56,789	-	56,789	5,111	16,814	-	7,212	26,753	112,679
	2008	49,999	-	49,999	4,500	11,390	-	6,949	53,505	126,343
Mr GW Wrightson	2009	253,647	22,750	276,397	22,946	13,308	5,779	7,212	26,753	352,395
	2008	229,783	25,113	254,896	20,700	8,335	3,779	6,949	53,505	348,164
Mr PS Tang	2009	152,385	30,482	182,867	14,131	13,308	-	7,212	26,753	244,271
	2008	140,027	33,355	173,382	11,700	8,335	-	6,949	53,505	253,871
Mr SH Kwan	2009	46,640	-	46,640	4,197	13,308	-	7,212	26,753	98,110
	2008	39,999	-	39,999	3,600	8,335	-	6,949	53,505	112,388
Mr CM Yang	2009	7,043	-	7,043	-	1,400	-	611	-	9,054
	2008	-	-	-	-	-	-	-	-	-
Mr IP Wilson*	2009	-	-	-	-	-	-	-	-	-
	2008	91,691	12,987	104,678	7,610	-	-	-	-	112,288
Mr P Segura	2009	126,996	17,964	144,960	12,460	-	2,104	-	6,688	166,212
	2008	143,958	23,657	167,615	11,970	-	11,046	-	13,376	204,007
Mr BJ Wyborn	2009	142,431	21,439	163,870	12,329	-	3,644	-	6,822	186,665
	2008	137,256	22,957	160,213	11,751	-	11,892	-	13,644	197,500
Total Key Management	2009	1,025,284	122,243	1,147,527	92,722	71,446	16,797	36,671	147,275	1,512,438
Personnel	2008	1,069,772	153,929	1,223,701	92,531	44,730	41,505	34,745	294,545	1,731,757

* Mr IP Wilson resigned on 17 December 2007.
** The amount is the present value of benefit attributed to current year.

Notes in relation to the table of Benefit and Payments for the Year ended 30 June 2009

(i) All options refer to options over ordinary shares of Hydromet Corporation Limited (ASX:HMC), which are exercisable on a one-for-one basis. The fair value of the options is calculated at the date of grant using the Hull-White option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. Market conditions have been taken into account within the valuation model.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
3 December 2007	2.5 years	\$0.0535	\$0.1676	\$0.16	48.3%	6.75%	0.6%

(ii) The Company pays insurance premiums that cover certain directors and officers. The premium is split between the Company directors only. The average premium per person has been included in remuneration.

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

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.

Performance-related Share-based Payments
The terms and conditions relating to options granted as remuneration during the year to key management personnel are as follows:

	Number of options granted during 2009	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	Number of options vested during 2009
Directors						
Mr. SH Kwan	-	-	-	-	-	500,000
Mr. TR Allen	-	-	-	-	-	500,000
Dr LD Jayaweera	-	-	-	-	-	500,000
Mr. GW Wrightson	-	-	-	-	-	500,000
Mr. PS Tang	-	-	-	-	-	500,000
Executives						
Mr. P Segura	-	-	-	-	-	125,000
Mr. BJ Wyborn	-	-	-	-	-	127,500

	Number of options granted during 2008	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	Number of options vested during 2008
Directors						
Mr. SH Kwan	2,000,000	3 December 2007	0.0535	0.1676	30 June 2010	1,000,000
Mr. TR Allen	2,000,000	3 December 2007	0.0535	0.1676	30 June 2010	1,000,000
Dr LD Jayaweera	2,000,000	3 December 2007	0.0535	0.1676	30 June 2010	1,000,000
Mr. GW Wrightson	2,000,000	3 December 2007	0.0535	0.1676	30 June 2010	1,000,000
Mr. PS Tang	2,000,000	3 December 2007	0.0535	0.1676	30 June 2010	1,000,000
Executives						
Mr. IP Wilson	1,000,000	3 December 2007	0.0535	0.1676	17 December 2007	500,000
Mr. P Segura	500,000	3 December 2007	0.0535	0.1676	30 June 2010	250,000
Mr. BJ Wyborn	510,000	3 December 2007	0.0535	0.1676	30 June 2010	255,000

No options have been granted during and since the end of the financial year.

All options expire on the earlier of their expiry date or termination of the individual's employment. For options granted on 3 December 2007, 50% of the options granted are exercisable from grant date, 25% are exercisable from 1 July 2008 and 25% are exercisable from 1 July 2009. The ability to exercise the options was not conditional on the consolidated entity achieving certain performance hurdles. The options were provided at no cost to the recipients.

Modification of terms of equity-settled share based payment transactions
No terms of equity-settled share based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

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

Exercise of options granted as compensation
During the financial years 2009 and 2008, no shares were issued on the exercise of options previously granted as compensation.

Analysis of options granted as compensation
Details of vesting profiles of the options granted as remuneration to each key management person of the Group are detailed below:

Directors	**Options granted**		**% vested in year**	**% forfeited /expired in year**	**Financial years in which grant vests**
	Number	**Date**			
Mr. SH Kwan	1,000,000	3 December 2007	-%	-%	2008
	500,000	3 December 2007	100%	-%	2009
	500,000	3 December 2007	-%	-%	2010
Mr. TR Allen	1,000,000	3 December 2007	-%	-%	2008
	500,000	3 December 2007	100%	-%	2009
	500,000	3 December 2007	-%	-%	2010
Dr LD Jayaweera	1,000,000	3 December 2007	-%	-%	2008
	500,000	3 December 2007	100%	-%	2009
	500,000	3 December 2007	-%	-%	2010
Mr. GW Wrightson	1,000,000	3 December 2007	-%	-%	2008
	500,000	3 December 2007	100%	-%	2009
	500,000	3 December 2007	-%	-%	2010
Mr. PS Tang	1,000,000	3 December 2007	-%	-%	2008
	500,000	3 December 2007	100%	-%	2009
	500,000	3 December 2007	-%	-%	2010
Executives					
Mr. P Segura	250,000	3 December 2007	-%	-%	2008
	125,000	3 December 2007	100%	-%	2009
	125,000	3 December 2007	-%	-%	2010
Mr. BJ Wyborn	255,000	3 December 2007	-%	-%	2008
	127,500	3 December 2007	100%	-%	2009
	127,500	3 December 2007	-%	-%	2010

Analysis of movement in options
No options were granted, exercised or lapsed during the year.

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

GW Wrightson
Director
Dated: 24/8/2009

HLB Newhouse

Chartered Accountants | Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of HydroMet Corporation Limited ABN 71 002 802 646 and controlled entities:

As lead auditor for the audit of HydroMet Corporation Limited for the period ended 30 June 2009, 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. J. Newhouse

Andrew J Newhouse
Partner

HLB Newhouse

Dated this 24th day of August 2009

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HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
Revenue from continuing operations	2	27,923	33,148	-	205
Other income	2	11	130	36	66
Changes in inventories of finished goods & WIP		270	(2,286)	-	-
Raw materials and consumables used		(19,580)	(17,847)	-	-
Direct production costs		(6,071)	(5,514)	-	-
Personnel expenses		(5,595)	(4,899)	(1,606)	(1,814)
Depreciation and amortisation expenses		(889)	(565)	(54)	(61)
(Impairment)/Reversal of provision for intercompany loans and investments		-	-	(2,297)	551
Consultants and professional services		(333)	(393)	(260)	(272)
Insurance expenses		(270)	(237)	(84)	(76)
Property rental and site costs		(169)	(82)	(16)	(15)
Net loss on sale of property, plant and equipment		-	(14)	-	(14)
Net finance income/(costs)	2	641	1,068	569	1,078
Other expenses		(712)	(742)	(298)	(344)
(Loss)/profit before income tax	3	(4,774)	1,767	(4,010)	(696)
Income tax benefit	4	1,436	1,177	545	1,882
(Loss)/profit from continuing operations		(3,338)	2,944	(3,465)	1,186
(Loss) from discontinued operation	5	-	(388)	-	-
(Loss)/profit attributable to member of the parent entity		(3,338)	2,556	(3,465)	1,186
Overall Operations					
Basic earnings per share (cents per share)	9	(0.983)	0.804		
Diluted earnings per share (cents per share)	9	(0.951)	0.804		
Continued Operations					
Basic earnings per share (cents per share)	9	(0.983)	0.926		
Diluted earnings per share (cents per share)	9	(0.951)	0.926		
Discontinued Operations					
Basic earnings per share (cents per share)	9	-	(0.122)		

The accompanying notes form part of these financial statements.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
BALANCE SHEETS AS AT 30 JUNE 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	2,908	1,944	788	1,712
Trade and other receivables	11	4,835	5,498	11	209
Inventories	12	3,223	6,204	-	-
Prepayments for current assets		43	1,411	17	16
Derivatives	13	-	407	-	-
TOTAL CURRENT ASSETS		11,009	15,464	816	1,937
NON-CURRENT ASSETS					
Receivables	11	-	-	14,281	17,598
Other financial assets	14	-	-	8,656	8,595
Deferred tax assets	22	3,688	1,925	2,869	625
Property, plant and equipment	16	9,888	10,219	181	230
Intangible assets	17	663	663	-	-
Other non-current assets	18	557	382	-	-
TOTAL NON-CURRENT ASSETS		14,796	13,189	25,987	27,048
TOTAL ASSETS		25,805	28,653	26,803	28,985
CURRENT LIABILITIES					
Trade and other payables	19	3,868	3,676	105	188
Borrowings	20	1,640	2,430	454	42
Employee benefits	21	740	672	278	283
Current tax liabilities	22	-	143	-	143
Deferred income		155	12	-	-
Derivatives	13	368	-	-	-
Short-term provisions	23	1,008	3,039	21	-
TOTAL CURRENT LIABILITIES		7,779	9,972	858	656
NON-CURRENT LIABILITIES					
Borrowings	20	603	1,120	14,850	16,728
Employee benefits	21	230	172	164	92
Deferred tax liabilities	22	741	426	25	16
Other long-term provisions	23	-	12	-	12
TOTAL NON-CURRENT LIABILITIES		1,574	1,730	15,039	16,848
TOTAL LIABILITIES		9,353	11,702	15,897	17,504
NET ASSETS		16,452	16,951	10,906	11,481
EQUITY					
Issued capital	24	70,239	67,242	70,239	67,242
Reserves	25	705	530	756	530
Accumulated losses		(54,492)	(50,821)	(60,089)	(56,291)
TOTAL EQUITY		16,452	16,951	10,906	11,481

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 2009

Consolidated Group

	Note	Ordinary $000	Hedging reserve $000	Compound instrument equity reserve $000	Equity compen-sation reserve $000	Accumu-lated losses $000	Total $000
Balance at 1 July 2007		65,585	(150)	-	-	(52,745)	12,690
Transferred to profit or loss		-	150	-	-	-	150
Profit for the year		-	-	-	-	2,556	2,556
Transfer to Compound instrument reserve		(28)	-	28	-	-	-
Shares issue during the year		1,714	-	-	-	-	1,714
Shares bought back during the year		(29)	-	-	-	-	(29)
Equity settled transactions, net of tax		-	-	-	502	-	502
Sub-total		67,242	-	28	502	(50,189)	17,583
Dividends paid		-	-	-	-	(632)	(632)
Balance at 30 June 2008		67,242	-	28	502	(50,821)	16,951
Loss for the year		-	-	-	-	(3,338)	(3,338)
Shares issue 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

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 2009

Parent Entity

	Note	Ordinary	Hedging reserve	Compound instrument equity reserve	Equity compen-sation reserve	Accumu-lated losses	Total
		$000	$000	$000	$000	$000	$000
Balance at 1 July 2007		65,585	-	-	-	(55,149)	10,436
Prior year adjustment		-	-	-	-	(1,696)	(1,696)
Profit for the year		-	-	-	-	1,186	1,186
Transfer to Compound instrument reserve		(28)	-	28	-	-	-
Shares issue during the year		1,714	-	-	-	-	1,714
Shares bought back during the year		(29)	-	-	-	-	(29)
Equity settled transactions, net of tax		-	-	-	502	-	502
Sub-total		67,242	-	28	502	(55,659)	12,113
Dividends paid		-	-	-	-	(632)	(632)
Balance at 30 June 2008		67,242	-	28	502	(56,291)	11,481
Loss for the year		-	-	-	-	(3,465)	(3,465)
Shares issue 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

The accompanying notes form part of these financial statements.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
CASH FLOW STATEMENTS FOR YEAR ENDED 30 JUNE 2009

		2009 $000	2008 $000	2009 $000	2008 $000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		31,245	34,529	809	110
Payment to suppliers and employees		(30,517)	(33,310)	(3,768)	(2,012)
Interest received		41	97	37	88
Finance costs		(275)	(391)	(79)	(142)
Income tax paid		(143)	-	(143)	-
Net cash provided by/(used in) operating activities	29	351	925	(3,144)	(1,956)
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(558)	(1,206)	(5)	(69)
Purchase of other non-current assets		(174)	-	-	-
Proceeds from sale of property, plant and equipment		-	63	-	63
Net cash used in investing activities		(732)	(1,143)	(5)	(6)
CASH FLOW FROM FINANCING ACTIVITIES					
Payment of finance lease liabilities		(323)	(351)	(103)	(151)
Proceeds from issue of shares		2,997	1,714	2,997	1,714
Proceeds from issue of convertible notes		200	-	200	-
Share buy-back payment		-	(29)	-	(29)
Dividends paid by parent entity		(333)	(632)	(333)	(632)
Loans from subsidiaries		-	-	-	1,145
Repayments of borrowings		(1,238)	(1,633)	(532)	-
Proceeds from borrowings		66	1,464	-	66
Net cash provided by financing activities		1,369	533	2,229	2,113
Net increase/(decrease) in cash held		988	315	(920)	151
Cash at beginning of financial year		1,944	1,628	1,712	1,559
Effect of exchange rate on cash holdings in foreign currencies		(24)	1	(4)	2
Cash at end of financial year	10	2,908	1,944	788	1,712

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 2009

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 controlled entities ('Consolidated Group' or 'Group') and the separate financial statements and notes of Hydromet Corporation Limited as an individual parent entity ('Parent Entity').

Note 1: Statement 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, and the *Corporations Act 2001*.

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 24 August 2009.

a. Principles of Consolidation

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 its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 15 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation.

b. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

i. *Tax consolidation*

The Company and its controlled entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from 1 July 2003. The head entity within the tax-consolidated group is Hydromet Corporation Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable/ receivable to/from other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

ii. *Nature of tax funding arrangements and tax sharing arrangements*

At 30 June 2009 no tax funding or tax sharing agreement has been entered into by the members of 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 the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

d. Property, Plant and Equipment

i. *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net in profit or loss.

ii. *Subsequent costs*

The cost of replacing part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii. *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful life unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• buildings and freehold improvements	40 years
• plant and equipment	4 -8 years
• office equipment and fixtures	4 -8 years
• motor vehicles	4 -7 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e. Leases

Leases of fixed assets where the group has substantially all the risks and benefits incidental to the ownership of the assets, but not the legal ownership, are classified as finance leases.

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.

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.

f. Financial Instruments

i. *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

Accounting for finance income and expense is discussed in Note 1(o).

- Financial assets at fair value through profit or loss
  An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit of loss are measured at fair value, and changes therein are recognised in profit or loss.

- Other
  Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

ii. *Derivative financial instruments*
The Group holds derivative financial instruments to hedge its foreign currency and metal price risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

- Cash flow hedges
  Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

  If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedge item affects profit or loss.

- Economic hedges
  Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currency and metal prices. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency and metal sales gains and losses.

iii. *Compound financial instruments*
Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

iv. *Share capital*

- Ordinary shares
  Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

- Repurchase of share capital
  When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity, net of any tax effects.

- Dividends
  Dividends are recognised as a liability in the period in which they are declared.

g. Impairment of Assets

i. *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

ii. *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

h. Intangibles

i. *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

ii. *Other intangible assets*

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

iii. *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognised in profit and loss as incurred.

iv. *Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

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.

i. Exploration and Evaluation Assets

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

Exploration, evaluation and development costs are stated at cost less impairment losses (see accounting policy g.).

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

j. Foreign Currency Transactions and Balances

i. *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.

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

Exchange differences arising on the translation of monetary items are recognised in the income statement, 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 income statement.

Foreign currency gains and losses are reported on a net basis.

k. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. 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. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

i. *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.

ii. *Equity-settled compensation*
The Group operates equity-settled share-based payment employee share 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 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

l. Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

i. *Site restoration*
In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

ii. *Waste disposal*
Hazardous by-products are produced during the operations carried out by the Group. The Group has established strict procedures to ensure that all these hazardous by-products are disposed of safely. A provision for waste disposal costs in respect of these by-products is recognised when they are generated.

iii. *Penalty payment*
Convertible notes were issued by the Company in March 2007 at their face value. The notes mature in 30 months from the date of issue and entitle a fixed rate interest payment over the terms and a penalty payment of 5% of the face value of the notes payable to the holders on redemption if the Company fails to achieve a basic earning per share of 1 cent in 2009 financial year and the share price is less than ten cents. A provision for the penalty payment is recognised evenly over the terms of the convertible notes.

iv. *Price adjustment on 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 be agreed assay and sales price transactions are recognised when the market price of the metal products are different from the provisional invoice price as at the reporting date.

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 balance sheet.

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 and upon loading the goods onto the relevant carrier for international shipment as these correspond to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

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

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

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

o. Finance Income and Expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit and loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

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.

All other borrowing costs are recognised in income in the period in which they are incurred.

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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement 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.

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 report 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.

i. *Key estimates*

- Utilisation of tax losses

  Deferred tax assets are reviewed at each reporting date. A deferred tax asset is only recognised to the extent that it is probable the future taxable profits will be available against which the tax losses can be utilised.

  The Group assesses its profit forecast for the next five years which is prepared on the basis of management's expectation of gradual improvement of the global economic environment. The assessment concluded that it is probable that future taxable profits will be available against which the tax losses can be utilised.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

ii. *Key judgments*

- 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 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 reporting date at $0.56m.

v. New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. The Group does not expect these requirements to have any material effect on the Group's financial statements, other than set out below.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.

- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 2: Revenue and Other Income

	Consolidated Group		Parent Entity	
	2009 $000	2008 $000	2009 $000	2008 $000
Revenue from continuing operations				
Sales revenue				
- sales revenue	26,223	31,687	-	-
- provision of services	1,700	1,461	-	205
Total Revenue	27,923	33,148	-	205
Net Finance Income				
Interest expense on financial liabilities not at fair value through profit or loss - external	(275)	(390)	(79)	(81)
Interest income on financial assets not at fair value through profit or loss - external	41	94	37	88
Cashflow hedge ineffective	-	478	-	-
Net change on financial assets fair value through profit or loss	569	1,100	-	-
Net loss on financial assets at fair value transferred from equity	-	(150)	-	-
Dividend income from subsidary	-	-	-	1,000
Foreign currency translation gain/(loss)	306	(64)	611	71
Net finance income and expense	641	1,068	569	1,078
Other Income				
Export market development grant	-	27	-	27
Amortisation of financial guarantee contract liabilities	-	-	34	33
Options fee received	-	72	-	-
Other	11	31	2	6
	11	130	36	66

Note 3: Profit for the Year

	Consolidated Group 2009	Consolidated Group 2008	Parent Entity 2009	Parent Entity 2008
a. Expenses				
Cost of sales	19,310	20,133	-	-
Impairment of non-current investments:				
- wholly-owned subsidiaries	-	-	-	(118)
Bad and doubtful debts:				
- wholly-owned subsidiaries	-	-	3,880	(433)
Rental expense on operating leases				
- minimum lease payments	169	82	16	15
Exploration expenditure	29	41	-	-
Research & development costs	32	19	-	1
b. Significant Expenses				
The following significant expense item are relevant in explaining the financial performance:				
Net loss on change in net realisable value of battery inventory	1,634	339	-	-

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 4: Income Tax Expense

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
a. The components of tax expense comprise:				
Current tax expense				
Current tax	-	111	-	(1,317)
Adjustments for prior years	(10)	44	(10)	44
	(10)	155	(10)	(1,273)
Deferred tax expense				
Origination and reversal of temporary differences and tax losses	(1,426)	401	(535)	736
Recognition of previously unrecognised temporary differences	-	(638)	-	(83)
Recognition of previously unrecognised tax losses	-	(1,257)	-	(1,257)
Utilisation of previously unrecognised tax losses	-	(5)	-	(5)
	(1,426)	(1,499)	(535)	(609)
Total income tax benefit	(1,436)	(1,344)	(545)	(1,882)
Incomes tax benefit from continuing operations	(1,436)	(1,177)	(545)	(1,882)
Income tax benefit from discontinued operation	-	(167)	-	-
	(1,436)	(1,344)	(545)	(1,882)

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 4: Income Tax Expense (cont'd)

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
b. The prima facie tax on (loss)/profit from ordinary activities before income tax is reconciled to the income tax as follows:				
Income tax using the Company's domestic tax rate of 30% (2008: 30%) on the loss/(profit) before income tax	(1,433)	364	(1,203)	(209)
Non-deductible expenses	93	149	738	94
Non-assessable income	-	-	-	(465)
Other deductible expenses	(16)	(1)	-	(1)
Recognition of previously unrecognised temporary differences	-	(638)	-	(83)
Recognition of previously unrecognised tax losses	-	(1,257)	-	(1,257)
Utilisation of previous unrecognised tax losses	-	(5)	-	(5)
	(1,356)	(1,388)	(465)	(1,926)
Under/(over) provided in prior years	(80)	44	(80)	44
Income tax benefit on pre-tax net profit	(1,436)	(1,344)	(545)	(1,882)

Note 5: Discontinued Operations

In late 2007, the Group was advised by a customer that they have entered into an agreement to place their Electric Arc Furnace Dust (EAF Dust) with a competitor. In March 2008, the Group completed the treatment of the last batch of EAF Dust at Unanderra facility and ceased EAF Dust treatment and zinc sulphate production. The EAF Dust operation formed part of the Group's residues treatment business. The Group commenced modification to the EAF Dust processing plant in April 2008 to accommodate the lead product quality enhancement process. There were no retirements or disposal of assets as a result of the cessation of the EAF Dust treatment operation.

Financial information relating to the discontinued operation to the date of cessation is set out below.

The financial performance of the discontinued operation to the date of cessation which is included in profit/(loss) from discontinued operations per the income statement is as follows:

	Consolidated Group	
	2009	**2008**
	$000	**$000**
Revenue	-	1,491
Expenses	-	(2,046)
Loss before income tax	-	(555)
Income tax credit	-	167
Loss after tax attributable to the discontinued operation	-	(388)
The net cash flows of the discontinuing operation which have been incorporated into the statement of cash flows are as follows:		
Net cash inflow from operating activities	-	302
Net cash inflow from investing activities	-	1
Net cash increase in cash generated by the discontinuing operation	-	303

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 6: Interest of Key Management Personnel (KMP)
Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2009.

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

	2009 $	2008 $
Short-term employee benefits	1,147,527	1,223,701
Post-employment benefits	164,168	137,261
Other long-term benefit	16,797	41,505
Other compensation	36,671	34,745
Share-based payments	147,275	294,545
	1,512,438	1,731,757

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:

30 June 2009	Balance at beginning of year	Changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
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	-
30 June 2008						
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 IP Wilson	1,000,000	(1,000,000)	-	500,000	-	-

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

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

30 June 2009	Balance at beginning of year	Purchased during the year	Balance at end of year
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 2008			
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:

30 June 2009	Balance at beginning of year	(Sold)/ purchased during the year	Balance at end of year
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 P Segura	138,000	-	138,000
Mr BJ Wyborn	160,000	-	160,000
30 June 2008			
Dr LD Jayaweera	36,527,511	(4,013,504)	32,514,007
Mr TR Allen	1,800,000	(1,450,000)	350,000
Mr GW Wrightson	1,078,300	60,000	1,138,300
Mr PS Tang	2,859,000	100,000	2,959,000
Mr SH Kwan	46,000	-	46,000
Mr P Segura	138,000	-	138,000
Mr BJ Wyborn	130,000	30,000	160,000

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 32 Related Party Transactions.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 7: Auditors' Remuneration

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Remuneration of the auditors of the parent entity:				
HLB Newhouse				
- auditing or reviewing the financial report	30,000	-	30,000	-
KPMG (former auditor)				
- auditing or reviewing the financial report	71,009	90,751	71,009	90,751
- taxation services	34,940	28,545	34,940	28,545
- Research & development tax concession	-	15,037	-	15,037
- taxation services provided by related practice of auditor	6,952	5,960	6,952	5,960

Note 8: Dividends

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Distribution paid				
2007 final dividend (fully franked) of 0.1 cent per share paid in 2008	-	317	-	317
2008 interim fully franked ordinary dividend of 0.1 cent per share paid in 2008	-	315	-	315
2008 final dividend (fully franked) of 0.1 cent per share paid in 2009	333	-	333	-
	333	632	333	632
No final dividends were proposed for 2009 (2008: 0.1 cent per share, fully franked).				
Balance of franking account at year end adjusted for franking credits arising from:				
- payment of provision for income tax				
- franking debits arising from payment of proposed dividend	2,949	3,103	2,949	3,103

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 9: Earnings per Share

	Consolidated Group	
	2009	**2008**
	$000	**$000**
a. Reconciliation of earnings to profit or loss		
Earning used to calculate basic EPS	(3,338)	2,556
Interest on convertible notes, net of tax	42	38
Earnings used in the calculation of dilutive EPS	(3,296)	2,594
b. Reconciliation of earnings to profit or loss from continuing operations		
Earning used to calculate basic EPS from continuing operations	(3,338)	2,944
Interest on convertible notes, net of tax	42	38
Earnings used in the calculation of dilutive EPS from continuing operations	(3,296)	2,982
c. Reconciliation of earnings to profit or loss from discontinuing operations		
Earnings used to calculate basic EPS from discontinuing operations	-	(388)

d. Weighted average number of ordinary shares (in thousands of shares)	**No.**	**No.**
Weighted average number of ordinary shares at 30 June used in calculating basic EPS	339,669	317,990
Effect of convertible notes on issue	7,000	4,500
Weighted average number of ordinary shares at 30 June used in calculating dilutive EPS	346,669	322,490

e. Diluted earnings per share is not reflected for discontinuing operations as the result is anti-dilutive in nature.

Note 10: Cash and Cash Equivalents

	Note	**Consolidated Group**		**Parent Entity**	
		2009	**2008**	**2009**	**2008**
		$000	**$000**	**$000**	**$000**
Cash at bank and in hand		2,381	1,294	261	1,062
Short-term bank deposits		527	650	527	650
		2,908	1,944	788	1,712

The effective interest rate on short-term bank deposits was 4.64% (2008: 6.65%), these deposits are on call.

Note 11: Trade and Other Receivables

	Consolidated Group		**Parent Entity**	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
CURRENT				
Trade receivables	1,893	4,502	-	205
Other receivables	2,942	996	11	4
Total current trade and other receivables	4,835	5,498	11	209
NON-CURRENT				
Loans to subsidiaries	-	-	43,907	44,927
Provision for impairment	-	-	(29,626)	(27,329)
Total non-current receivable	-	-	14,281	17,598

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 11: Trade and Other Receivables (cont'd)
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 loan to wholly owned subsidiaries is as follows:

Parent Entity	**$000**
Balance at 1 July 2007	27,447
Reversed during the year	(118)
Balance at 30 June 2008	27,329
Charged for the year	2,297
Balance at 30 June 2009	29,626

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

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

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

	Consolidated Group		**Parent Entity**	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Australia	430	2,724	11	4
Europe	1,997	1,633	-	-
Asia Pacific	670	1,074	-	205
North America	1,738	67	-	-
	4,835	5,498	11	209

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, with 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

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

	Gross amount	Past due and impaired	Past due but not impaired (days overdue) <30	>90	Within initial trade terms
	$000	$000	$000	$000	$000
Consolidated Group					
2009					
Trade receivables	1,893	-	128	5	1,760
Other receivables	2,942	-	-	-	2,942
Total	4,835	-	128	5	4,702
2008					
Trade receivables	4,502	-	673	-	3,829
Other receivables	996	-	-	-	996
Total	5,498	-	673	-	4,825
Parent Entity					
2009					
Other receivables	11	-	-	-	11
Loan to subsidiaries	14,281	-	-	-	14,281
Total	14,292	-	-	-	14,292
2008					
Trade receivables	205	-	-	-	205
Other receivables	4	-	-	-	4
Loan to subsidiaries	17,598	-	-	-	17,598
Total	17,807	-	-	-	17,807

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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 12: Inventories

	Note	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
CURRENT					
At cost					
Raw material and consumables		873	137	-	-
Work in progress		351	109	-	-
Finished goods		1,916	1,999	-	-
		3,140	2,245	-	-
At net realisable value					
Raw material and consumables		-	3,446	-	-
Work in progress		83	-	-	-
Finished goods		-	513	-	-
		83	3,959	-	-
		3,223	6,204	-	-

Note 13: Derivatives

	Note	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
CURRENT					
Assets					
Commodity swap contracts		-	407	-	-
	33	-	407	-	-
Liabilities					
Commodity swap contracts	33	368	-	-	-
		368	-	-	-

Commodity swap contacts 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 income statement or the cost of assets. The statement of changes in equity includes transfers to and from the hedge reserve.

Note 14: Other Financial Assets

	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
Shares in subsidaries	-	-	13,656	13,595
Less: impairment provision	-	-	(5,000)	(5,000)
	-	-	8,656	8,595

On 3 December 2007 the Company granted share-based payment 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 $61,000 (2008: $187,000) is accounted for as investment in subsidiaries.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 15: Controlled Entities
a. Controlled Entities Consolidated

	Country of incorporation	Percentage Owned* 2009 %	2008 %
Parent Entity			
Hydromet Corporation Limited			
Subsidiaries of HydroMet Corporation Limited			
HydroMet Operations (Southern) Limited	Australia	100	100
HydroMet Technologies Pty Limited	Australia	100	100
HydroMet Operations (NT) Pty Limited	Australia	100	100
HydroMet Operations (Tasmania) Pty Limited	Australia	100	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	100

* Percentage of voting power is in proportion to ownership.

b. Deed of Cross guarantee

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

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

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 15: Controlled Entities (cont'd)

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

	Consolidated 2009 $000	Consolidated 2008 $000
Financial information in relation to:		
i Income Statement		
(Loss)/profit before income tax	(4,950)	3,151
Income tax benefit	1,489	1,569
(Loss)/profit attributable to members of the parent entity	(3,461)	4,720
ii Retained Earnings		
Accumulated losses at the beginning of the year	(53,464)	(57,539)
(Loss)/profit after income tax	(3,461)	4,720
Prior year adjustment	-	15
Transfers to reserve	-	(28)
Dividend recognised during the year	(333)	(632)
Accumulated losses at the end of the year	(57,258)	(53,464)
iii Balance Sheet		
CURRENT ASSETS		
Cash and cash equivalents	1,237	1,874
Trade and other receivables	2,298	5,420
Inventories	1,607	4,026
TOTAL CURRENT ASSETS	5,142	11,320
NON-CURRENT ASSETS		
Other financial assets	11,432	11,401
Deferred tax assets	3,257	1,591
Property, plant and equipment	7,764	7,943
Intangibles	663	663
TOTAL NON-CURRENT ASSETS	23,116	21,598
TOTAL ASSETS	28,258	32,918
CURRENT LIABILITIES		
Trade and other payables	1,578	2,361
Borrowings	693	246
Employee benefits	441	268
Current tax liabilities	-	143
Short-term provisions	816	2,212
TOTAL CURRENT LIABILITIES	3,528	5,230
NON-CURRENT LIABILITIES		
Borrowings	10,377	12,713
Employee benefits	181	302
Deferred tax liabilities	486	366
TOTAL NON-CURRENT LIABILITIES	11,044	13,381
TOTAL LIABILITIES	14,572	18,611
NET ASSETS	13,686	14,307
EQUITY		
Issued capital	70,239	67,241
Reserves	705	530
Accumulated losses	(57,258)	(53,464)
	13,686	14,307

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 16: Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2009 $000	2008 $000	2009 $000	2008 $000
LAND AND BUILDINGS				
Freehold land at deemed cost	2,786	2,786	-	-
Total Land	2,786	2,786	-	-
Building at cost	4,418	4,409	-	-
Less accumulated depreciation	(1,174)	(1,058)	-	-
Total Buildings	3,244	3,351	-	-
Total Land and Buildings	6,030	6,137	-	-
PLANT AND EQUIPMENT				
Plant & equipment at cost	8,564	8,237	-	-
Accumulated depreciation	(5,436)	(4,769)	-	-
	3,128	3,468	-	-
Leased plant and equipment				
Capitalised leased assets	479	416	295	295
Accumulated depreciation	(195)	(130)	(125)	(78)
	284	286	170	217
Motor vehicles and office equipment	327	316	211	207
Accumulated depreciation	(301)	(286)	(200)	(194)
	26	30	11	13
Plant under construction	420	298	-	-
Total Property, Plant and Equipment	9,888	10,219	181	230

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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

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

	Freehold Land	Buildings	Plant and Equipment	Leased Plant and Equipment	Motor Vehicles and Office Equipment	Plant Under Construction	Total
	$000	$000	$000	$000	$000	$000	$000
Consolidated Group							
Balance at 1 July 2007	2,786	3,328	3,356	344	24	-	9,838
Additions	-	131	671	84	22	298	1,206
Disposals	-	-	(20)	(76)	-	-	(96)
Depreciation expense	-	(110)	(537)	(66)	(16)		(729)
Balance at 30 June 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
Parent Entity							
Balance at 1 July 2007	-	-	-	286	13	-	299
Additions	-	-	-	61	8	-	69
Disposals	-	-	-	(76)	-	-	(76)
Depreciation expense	-	-	-	(54)	(8)	-	(62)
Balance at 30 June 2008	-	-	-	217	13	-	230
Additions	-	-	-	-	4	-	4
Depreciation expense	-	-	-	(47)	(6)	-	(53)
Balance at 30 June 2009	-	-	-	170	11	-	181

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
b. Carrying Amount of Plant & Equipment in the Course of Construction	420	298	-	-

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 we anticipate that the smelter will commence commissioning in the December quarter 2010. Plant design and assessment of equipment were commenced with cost incurred up to the reporting date totalling $420,000 (2008: $298,000).

Note 17: Intangible Assets

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Hydroproc Process				
Cost	2,217	2,217	-	-
Accumulated impaired losses	(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 2009

Note 17: Intangible Assets (cont'd)

Hydroproc process

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

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

- actual operating results;
- the 2010 business plan; and
- a five percent growth rate for cash flows for a further nineteen-year period.

A pre-tax discount rate of 14 percent (2008: 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.

Note 18: Other Non-current Assets

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Exploration expenditure capitalised				
- exploration and evaluation phases	557	382	-	-
Total exploration expenditure	557	382	-	-

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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 19: Trade and Other Payables

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
CURRENT				
Financial liabilities at amortised cost				
Unsecured liabilities				
Trade payables	1,628	1,939	21	59
Sundry payables and accrued expenses	2,240	1,737	45	56
Liabilities for financial guarantees	-	-	39	73
	3,868	3,676	105	188

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 33.

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 2009 Face value $000	30 June 2008 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 15. 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 15.

The method used in determining the fair value of these guarantees has been disclosed in Note 33.

The Group 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 2009

Note 20: Borrowings

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
CURRENT				
Unsecured liabilities				
Convertible notes	421	-	421	-
	421	-	421	-
Securred liabilities				
Bank loans	935	2,173	-	-
Lease liabilities	284	257	33	42
	1,219	2,430	33	42
Total current borrowings	1,640	2,430	454	42
NON-CURRENT				
Unsecured				
Convertible notes	184	417	184	417
Loans from subsidiaries	-	-	14,596	16,148
	184	417	14,780	16,565
Secured liabilities				
Lease liabilities	419	703	70	163
Total non-current liabilities	603	1,120	14,850	16,728
Total borrowings	2,243	3,550	15,304	16,770
a. Total current and non-current secured liabilities:				
Bank loans	935	2,173	-	-
Leased liabilities	703	960	103	205
	1,638	3,133	103	205
b. The carrying amount of non-current assets pledged as security are:				
Freehold land and buildings	6,030	6,137	-	-
Leased plant & equipment	284	286	170	217
Floating charges over assets	19,491	22,230	-	-
	25,805	28,653	170	217
c. Convertible notes				
Proceeds from the issue of convertible notes	650	450	650	450
Transaction costs	(6)	(9)	(6)	(9)
Net proceeds	644	441	644	441
Amount classified as equity	(39)	(28)	(39)	(28)
Carrying amount of liability at 30 June	605	413	605	413

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 20: Borrowings (cont'd)
The amount of the convertible notes classified as equity of $39,000 is not net of attributable transaction cost as it is immaterial.

$450,000 notes are convertible, at the option of the holders, to ordinary shares of the Company at the price of 10 cents per share on or at any time before their maturity. Unconverted notes become repayable on maturity.

$200,000 notes are convertible, at the option of the holders, to ordinary shares of the Company at the price of 8 cents per share at any time after the twelfth month from the date of their issue.

On 3 December 2008, the Group issued $100,000 12% debentures maturing 2 December 2009. On 31 March 2009, with agreement with the debenture holder, the debentures were redeemed.

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 payment out of net earnings accrued after the date of the loan agreement and in any one year, they must not exceed 50% of net profit after tax, less principal and interest repayments of the previous fiscal year.

Lease liabilities are secured by the underlying leased assets.

Note 21: Employee benefits

	Consolidated Group		Parent Entity	
	2009 $000	2008 $000	2009 $000	2008 $000
CURRENT				
Salaries and wages accrued	49	52	14	19
Liability for annual leave	444	421	134	147
Liability for long service leave	247	199	130	117
Total current employee benefits	740	672	278	283
NON-CURRENT				
Liability for long service leave	70	84	4	4
Liability for retirement benefit	160	88	160	88
Total non-current employee benefits	230	172	164	92
Total employee benefits	970	844	442	375

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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 21: Employee benefits (cont'd)

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	
	2009 $000	2008 $000	2009 $000	2008 $000
Contribution to superannuation funds	611	614	227	275
Present value of retirement benefit	71	45	71	45

Note 22: Tax

CURRENT

	Consolidated Group 2009 $000	Consolidated Group 2008 $000	Parent Entity 2009 $000	Parent Entity 2008 $000
Income tax receivable	10	-	10	-
Income tax payable	-	143	-	143

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)
Other	-	(129)	-	(129)
Balance at 30 June 2008	-	(426)	-	(426)
Property, plant and equipment – tax allowance	(297)	-	-	(297)
Inventory	-	(188)	-	(188)
Accrued income	-	(253)	-	(253)
Other	(129)	125	-	(3)
Balance at 30 June 2009	(426)	(316)	-	(741)

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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	-	-	1,153
Accrued expenses	-	23	-	-	23
Tax loss carry-forward	-	486	-	-	486
Property, plant and equipment – impairment	-	198	-	-	198
Other	-	65	-	-	65
Balance at 30 June 2008	-	1,925	-	-	1,925
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	(13)	-	-	51
Balance at 30 June 2009	1,925	1,742	22	-	3,688

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 (2008: $99,000)
- tax losses: unrealised capital losses $322,000 (2008: $302,000)

	Opening Balance	Charged to Income	Charged directly to Equity	Charged to subsidiary loan	Closing Balance
Parent Entity					
Deferred Tax Liabilities					
Other	-	(16)	-	-	(16)
Balance at 30 June 2008	-	(16)	-	-	(16)
Other	(16)	(9)	-	-	(25)
Balance at 30 June 2009	(16)	(9)	-	-	(25)
Deferred Tax Assets					
Provision	-	110	-	-	110
Accrued expenses	-	15	-	-	15
Tax loss carry-forward	-	486	-	-	486
Property, plant and equipment – impairment	-	9	-	-	9
Other	-	5	-	-	5
Balance at 30 June 2008	-	625	-	-	625
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	(2)	-	-	2
Balance at 30 June 2009	625	544	-	-	2,869

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 (2008: $99,000)

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 23: Provisions

	Site restoration	Waste disposal	Penalty payment	Price adjustment on sales	Total
	$000	$000	$000	$000	$000
Consolidated Group					
Opening balance 1 July 2008	560	530	12	1,949	3,051
Amounts used	-	(189)	-	(1,863)	(2,052)
Additional provision	-	-	9	-	9
Balance at 30 June 2009	560	341	21	86	1,008
The Company					
Opening balance 1 July 2008	-	-	12	-	12
Additional provision	-	-	9	-	9
Balance at 30 June 2009	-	-	21	-	21

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Analysis of Total Provisions				
Current	1,008	3,039	21	-
Non-current	-	12	-	12
	1,008	3,051	21	12

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 Company 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 a basic earning 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 23: Provisions (cont'd)
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 sales 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 of $1,863,000 was used during the financial year.

Note 24: Issued Capital

	Consolidated Group And Parent entity		Consolidated Group And Parent entity	
	2009 No	2008 No	2009 $000	2008 $000
Fully paid ordinary shares	382,762,280	332,828,280	70,239	67,242
a. Ordinary Shares				
At the beginning of reporting period	332,828,280	315,465,918	67,242	65,557
Shares issued during the year				
- 7 May 2008	-	17,540,000	-	1,714
- 5 May 2009	10,000	-	2	-
- 11 May 2009	49,924,000	-	2,995	-
Shares bought back during year				
- 6 February 2008	-	(177,638)	-	(29)
At reporting date	382,762,280	332,828,280	70,239	67,242

On 6 February 2008, the Company bought back 177,638 ordinary shares on issue at $0.167 each. The total purchase consideration of the buy-back was $29,666. The nature and terms of the buy-back were:
- the buy back offer of $0.167 for each fully paid ordinary share was made to selective shareholders who held less than a marketable parcel of shares in the company;
- the accepting shareholders were paid and have their shares cancelled; and
- the full amount of the buy-back was debited to issued capital.

On 7 May 2008, the Company issued 17,540,000 ordinary shares to shareholders at $0.10 per share under a Share Purchase Plan. The shares ranked equally to existing ordinary shares on the date of issue.

On 5 May 2009, the Company issued 10,000 ordinary shares at $0.17 per share. The shares were issue under exercising listed options by option holders. The shares ranked equally to existing ordinary shares on the date of issue.

On 11 May 2009, the Company issued 49,924,000 ordinary shares at $0.06 per share under a private placement to a sophisticated investor. 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 on 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 30 Share-based Payments.

ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 30 Share-based Payments.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 24: Issued Capital (cont'd)
c. Capital Management
The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The board of directors also monitors the gearing ratio of the Group and the level of dividends to ordinary shareholders.

The board encourages employees of the Group to hold ordinary shares of the Company. Currently the Company maintains an employees share option plan and an executive share option plan. At present employees hold 21 percent of ordinary shares, or 25 percent assuming that all outstanding share options vest and /or are exercised.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of 20 percent; during the year ended 30 June 2009 the return was negative 20 percent (2008: 17.2 percent) due to the global economic turmoil. In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 6.7 percent (2008: 7.9 percent).

The board also ensures that the Group's gearing ratio remains between 20% and 40%. The gearing ratios for the year ended 30 June 2009 and 30 June 2008 are as follows:

	Note	Consolidated Group		Parent Entity	
		2009 $000	2008 $000	2009 $000	2008 $000
Total borrowings	19,20	6,111	7,226	15,409	16,958
Less cash and cash equivalents	10	(2,908)	(1,944)	(788)	(1,712)
Net debt		3,203	5,282	14,621	15,246
Total equity		16,452	16,951	10,906	11,481
Total capital		19,655	22,233	25,527	26,727
Gearing ratio		16%	24%	57%	57%

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements**.**

Note 25: 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 26: Capital and Leasing Commitments

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$000	$000	$000	$000
a. Finance Lease Commitments					
Payable – minimum lease payments					
- not later than 12 months		321	317	34	53
- between 12 months and 5 years		446	761	80	175
Minimum lease payments		767	1,078	114	228
Less future finance charges		(64)	(118)	(11)	(23)
Present value of minimum lease payments	20	703	960	103	205

The Group motor vehicle finance lease liabilities of $160,000 (2008: $240,000) 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 plant and equipment finance lease liability of $543,000 (2008: $720,000) expires in three 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	
	2009	2008	2009	2008
	$000	$000	$000	$000
Payable – minimum lease payments				
- not later than 12 months	7	4	-	2
- between 12 months and 5 years	38	8	-	-
Minimum lease payments	45	12	-	2

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 year. None of the lease agreements include contingent rentals.

c. Capital Expenditure Commitments

Capital expenditure commitments contracted for:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
Plant and equipment purchase				
Payable not later than 12 months	63	152	-	-

Note 27: Contingent Liabilities

Contingent liabilities not considered remote

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 (2008: $600,000) to two parties if the Group decides to commence mining on Stanton Prospect. A further royalty payment of 1% of the net smelter return generated from the sale of any mineral produced is payable to a party for a period of 10 years from the date on which commercial mining commences. It is not practicable to estimate the potential liability for royalty payment at this stage.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 28: Segment Reporting
Primary Reporting - Business Segments

	Residues treatment		Used battery		Elimination		Consolidated	
	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000
REVENUE								
External sales	17,182	13,483	10,741	21,156	-	-	27,923	34,639
Total revenues	17,182	13,483	10,741	21,156	-	-	27,923	34,639
RESULT								
Segment result	204	1,107	(3,198)	2,559	-	-	(2,994)	3,666
Unallocated expenses							(2,349)	(2,531)
Results from operating activities							(5,343)	1,135
Net finance incomes/(costs)							569	77
Profit before income tax							(4,774)	1,212
Income tax benefit							1,436	1,344
Profit after income tax							(3,338)	2,556
ASSETS								
Segment assets	20,774	20,359	15,114	21,252	(15,786)	(16,872)	20,102	24,739
Unallocated assets							5,704	3,914
Total assets							25,806	28,653
LIABILITIES								
Segment liabilities	9,434	9,183	18,637	21,800	(19,844)	(20,548)	8,227	10,435
Unallocated liabilities							1,127	1,267
Total liabilities							9,354	11,702
OTHER								
Acquisition of non-current segment assets	148	153	284	686	-	-	432	839
Depreciation and amortisation of segment assets	299	413	536	252	-	-	835	665

Secondary Reporting - Geographical Segments
The consolidated entity operates processing plants and administration offices in Australia only.

Accounting Policies
Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangible and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transfers
Segment revenues, expenses and results include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 28: Segment Reporting (cont'd)
Business and Geographical Segments
Business segments
The consolidated group has the following two business segments:
- Residues treatment segment involves the treatment of industrial residues and production of chemical/metal products therefrom.
- Used lead acid battery segment involves the breaking of used lead acid battery and recycling of all components within.

Geographical segments
The consolidated group's business segments are located in Australia only.

Note 29: Cash Flow Information

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$000	$000	$000	$000
a. Reconciliation of Cash Flows from Operations with Profit after income Tax				
(Loss)/profit after income tax	(3,338)	2,556	(3,465)	1,186
Non-cash flows in profit				
Depreciation	889	726	54	61
Amortisation of borrowing cost	-	4	-	4
Scrapping of property plant and equipment	-	22	-	-
Effect of exchange rate fluctuations on cash held	24	(2)	4	(2)
Reversal of impairment losses on investment	-	-	-	(433)
Provision/(reversal) of impairment losses on loans to subsidiaries	-	-	2,297	(118)
Amortisation of financial guarantee	-	-	(34)	(24)
Unrealised (loss)/gain on derivatives	(51)	150	-	-
Equity-settled share-based payment transaction	215	502	154	315
Income tax benefit	-	(1,343)	-	(1,882)
Dividend income from subsidiary	-	-	-	(1,000)
Loss on sale of property, plant and equipment	-	14	-	14
Operating profit/(loss) before changes in working capital and provisions	(2,261)	2,629	(990)	(1,879)
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	2,435	(1,969)	197	(198)
(Increase)/decrease in inventories	2,981	(2,389)	-	-
(Increase)/decrease in deferred tax assets	(1,448)	-	(2,235)	-
Increase/(decrease) in trade and other payables	333	491	(54)	15
Increase/(decrease) in income taxes payable	(143)	-	(143)	-
Increase/(decrease) in provisions	(1,546)	2,163	81	106
Net cashflow from operations	351	925	(3,144)	(1,956)

b. Non-cash Financing
During the year the consolidated group acquired motor vehicle and equipment with an aggregate value of $66,000 (2008: $84,000) 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 2009

Note 29: Cash Flow Information (cont'd)

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
c. Credit Standby Arrangements with Bank				
Overdraft facility	500	500	-	-
Amount utilised	-	-	-	-
	500	500	-	-

Bank overdraft facility is arranged with the principal banker of the Group with general terms and conditions being set. The facility is subject to quarterly review.

Interest rate is variable and subject to adjustment. At balance date the interest rate was 8.01% (2008: 10.72%).

	Consolidated Group		Parent Entity	
d. Loan facility				
Import loan facility	3,500	3,000	-	-
Amount utilised	(935)	(2,173)	-	-
	2,565	827	-	-

The major facilities are summarised as follows:
Import loan facility
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 4.49% (2008: 8%).

Note 30: 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 to 6 key management personnel over ordinary shares for no consideration. These options vest over a two and half-year period with 50% 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. Since the options were granted, six employees have left the Group with 1,720,000 options expired. Further details of these options are provided in the Directors' Report. The options hold 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 30: Share-based Payments (cont'd)

	Number	Weighted average exercise price
Options outstanding as at 30 June 2007	-	-
Granted	20,000,000	$0.1676
Expired	(1,240,000)	-
Options outstanding as at 30 June 2008	18,760,000	$0.1676
Expired	(480,000)	-
Options outstanding as at 30 June 2009	18,280,000	$0.1676
Options exercisable as at 30 June 2009:	13,710,000	
Options exercisable as at 30 June 2008:	9,380,000	

No options were granted or exercised during the year.

The weighted average remaining contractual life of options outstanding at year end was 1 year. The exercise price of outstanding shares at reporting date was $0.1676.

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

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%

Note 31: Events after the Balance Sheet Date

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 2009

Note 32: Other Related Party Transactions

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
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:				
Consultation fees were paid to PGM Refiners Pty Limited for provided technical research services 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	1,791	-	-	-
A controlled entity sold lead products to Jiangsu Chunxing Alloy Co. Ltd. in which Mr CM Yang, a director, has significant influence over its operations.	682,912	-	-	-

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 2009, loans repaid by subsidiaries totalled $1,613,000 (2007: loan made to subsidiaries $5,213,000).

For the financial year ended 30 June 2009, the following loans have been recognised as receivable/payable from/to subsidiaries:

Subsidiary	Receivable	Impairment loss	Net amount
	$000	$000	$000
Hydromet Operations Limited	22,877	19,776	3,101
Hydromet Operations (Southern) Limited	13,476	2,300	11,176
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	938	933	5
Hydromet Operations (NT) Pty Limited	1	1	-
	43,314	29,626	14,282

	Payable	Impairment loss	Net amount
Minmet Trust	12,264	-	12,264
Mineral Estates Limited	2,324	-	2,324
Kia Pacific Gold Pty Limited	9	-	9
	14,597	-	14,597

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 33: 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	
		2009	2008	2009	2008
		$000	$000	$000	$000
Financial Assets					
Cash and cash equivalents	10	2,908	1,944	788	1,712
Financial assets at fair value through profit or loss					
- Derivative instruments	13	-	407	-	-
Loans and receivables	11	4,835	5,498	14,292	17,807
		7,743	7,849	15,080	19,519
Financial Liabilities					
Financial liabilities at amortised cost					
- Trade and other payables	19	3,868	3,676	105	188
- Current tax liabilities	22	-	143	-	143
- Borrowings	20	2,243	3,550	15,304	16,770
- Derivative instruments	13	368	-	-	-
		6,479	7,369	15,409	17,101

Financial Risk Management Policies
The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk and the management of capital. Further quantitative disclosures are included throughout this financial report.

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. 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 33: Financial Risk Management (cont'd)
Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. For the Company it arises from receivables due from customers and subsidiaries.

Trade and other receivables
The Company's and Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and countries in which customers operate, has less of an influence on credit risk. Approximately 32 percent (2008: 32 percent) of the Group's revenue is attributable to sales transactions with a single customer. However, geographically there is no concentration of credit risk.

The management team has established a credit policy under which each new customer is analysed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases trade references. Purchase limits are reviewed by management on each individual sale transaction. Customers that fail to meet the Group's benchmark credit worthiness may transact with the Group only on a prepayment or advance deposit basis.

More than 55 percent (2008: 71 percent) of the Group's customers have been transacting with the Group for over two years, and no losses have occurred. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, reputation in the industry, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a list, and future sales are made on a prepayment or advance deposit basis with approval of management.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Company limits its exposure to receivables and loans due from wholly-owned subsidiaries by exercising direct financial management control of the subsidiaries.

The Company and Group have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are a specific loss component that relates to individually significant exposures.

Guarantees
Group policy is to provide financial guarantees only to wholly-owned subsidiaries. Details of outstanding guarantees are provided in Note 19.

Liquidity risk
Liquidity risk is the risk that the Company and Group will not be able to meet their financial obligations as they fall due. The Company and Group's approach to managing liquidity is to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company and Group's reputation.

The Company and Group uses direct costing to cost their products and services, which assist them in monitoring cash flow requirements and optimising their cash return on investments. Typically the Company and Group ensure that they have sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains the following lines of credit:

- $0.5 million overdraft facility that is secured by a charge over the Group's assets. Interest payable at the rate of Westpac Overdraft Business Rate plus 1.9%.
- $3.5 million import revolving facility that can be drawn down to finance importation of feed materials. The facility has a 180 day tenor. Interest would be payable at the rate of 180 days bank bill plus 1.9%.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 33: Financial Risk Management (cont'd)
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 refects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis

Consolidated Group	Within 1 Year		1 to 5 Years		Over 5 Years		Total Contractual Cash Flow	
	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000	2009 $000	2008 $000
Financial liabilities due for payment								
Bank loans	944	2,204	-	-	-	-	944	2,204
Convertible notes	487	41	240	458	-	-	727	499
Finance lease liabilities	320	317	447	761	-	-	767	1,078
Trade and other payable (excluding estimated annual leave)	3,868	3,676	-	-	-	-	3,868	3,676
Commodity swaps	368	-	-	-	-	-	368	-
Current tax liabilities	-	143	-	-	-	-	-	143
Total expected outflows	5,987	6,381	687	1,219	-	-	6,674	7,600
Financial assets – cash flows realisable								
Cash and cash equivalents	2,908	1,944	-	-	-	-	2,908	1,944
Trade and other receivables	4,835	5,498	-	-	-	-	4,835	5,498
Commodity swaps	-	407	-	-	-	-	-	407
Total anticipated inflows	7,743	7,849	-	-	-	-	7,743	7,849
Net (outflow)/inflow on financial instruments	1,756	1,468	(687)	(1,219)	-	-	1,069	249

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 33: Financial Risk Management (cont'd)

Parent Entity	**Within 1 Year**		**1 to 5 Years**		**Over 5 Years**		**Total Contractual Cash Flow**	
	2009 $000	**2008 $000**	**2009 $000**	**2008 $000**	**2009 $000**	**2008 $000**	**2009 $000**	**2008 $000**
Financial liabilities due for payment								
Amounts payable to subsidiaries	-	-	-	-	14,596	16,148	14,596	16,148
Convertible notes	487	41	240	458	-	-	727	499
Finance lease liabilities	34	53	80	175	-	-	114	228
Trade and other payable (excluding estimated annual leave)	105	115	-	-	-	-	105	115
Current tax liabilities	-	143	-	-	-	-	-	143
Total expected outflows	626	352	320	633	14,596	16,148	15,542	17,133
Financial assets – cash flows realisable								
Cash and cash equivalents	788	1,712	-	-	-	-	788	1,712
Trade and other receivables	11	209	-	-	-	-	11	209
Amounts receivable from subsidiaries	-	-	-	-	14,281	17,598	14,281	17,598
Total anticipated inflows	799	1,921	-	-	14,281	17,598	15,080	19,519
Net (outflow)/inflow on financial instruments	173	1,569	(320)	(633)	(315)	1,450	(462)	2,386

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**	
	2009 $000	**2008 $000**	**2009 $000**	**2008 $000**	**2009 $000**	**2008 $000**	**2009 $000**	**2008 $000**
Commodity swaps								
- Receivable	-	407	-	-	-	-	-	407
- Payable	368	-	-	-	-	-	368	-

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 20: Borrowings for further details.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 33: Financial Risk Management (cont'd)
Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and metal prices will affect the Company and Group's income or the value of their holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company and Group enter into derivatives, and also incur financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the board. Generally the Company and Group seek to apply hedge accounting in order to manage volatility in profit or loss.

i. *Currency risk*
The Company and Group are exposed to currency 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.

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

	Net financial assets/(liabilities) in AUD $000							
	AUD	**USD**	**NZD**	**Total AUD**	**AUD**	**USD**	**NZD**	**Total AUD**
Consolidated		**2009**				**2008**		
Trade and other receivables	2,301	2,534	-	4,835	1,427	4,477	13	5,917
Loans and borrowings	(1,308)	(935)	-	(2,243)	(1,377)	(2,173)	-	(3,550)
Cash and cash equivalents	1,049	1,859	-	2,908	1,243	701	-	1,944
Trade and other payables	(1,795)	(2,441)	-	(4,236)	(2,964)	(907)	-	(3,871)
Balance sheet exposure	247	1,017	-	1,264	(1,671)	2,098	13	440
Parent Entity								
Trade and other receivables	11	-	-	11	209	-	13	222
Loans and borrowings	(708)	-	-	(708)	(622)	-	-	(622)
Cash and cash equivalents	750	38	-	788	1,011	701	-	1,712
Trade and other payables	(105)	-	-	(105)	(277)	-	-	(277)
Loans to/(from) subsidiaries, net	(315)	-	-	(315)	1,450	-	-	1,450
Balance sheet exposure	(367)	38	-	(329)	1,771	701	13	2,485

The group has no open forward exchange contracts at balance date.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 33: Financial Risk Management (cont'd)

ii. *Interest rate risk*

The Company and Group adopt a policy of ensuring their exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering fixed interest rate borrowing contracts with the principals.

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

	Consolidated Carrying amount		Parent entity Carrying amount	
	2009 $000	2008 $000	2009 $000	2008 $000
Fixed rate instruments				
Financial liabilities	(2,243)	(3,550)	(708)	(622)
Variable rate instruments				
Financial assets	2,908	1,944	788	1,712

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.

A change in interest rates at the reporting date would not affect the Group's and Company's equity.

iii. *Metal price risk*

The Group is exposed to metal price risk on sales and purchases that are determined according to metal prices in post-sales/purchases quotation periods. The Company is not exposed to metal price risk.

Depending on the movement trend of the metal prices, the Group hedges a portion of its forecast sales/purchases. The Group uses commodity swap transaction contracts to hedge its metal price risk. All of the commodity swap transaction contracts have maturities of less than one year after the reporting date. Where necessary, the commodity swap transaction contracts are rolled over at maturity.

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

	Notional Amounts		Average Price	
Consolidated Group	**2009**	**2008**	**2009**	**2008**
Receive fixed and pay floating price of lead				
Settlement				
- less than 6 months	1,968	2,600	US$1,452 per mt	US$2,086 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.

HYDROMET CORPORATION LIMITED (ABN 71 002 802 646) AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 33: Financial Risk Management (cont'd)
The movement in cash flow hedge reserves attributable to commodity swap contracts is as follows (there are no swaps in the parent entity):

Consolidated Group	**2009 $000**	**2008 $000**
Opening balance	-	(150)
Transfer to profit or loss	-	150
Revaluation to fair value	51	-
Closing balance	51	-
Ineffectiveness recognised in the income statement	-	478

Net Fair Values
Fair value estimation
The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. 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. Areas of judgment and the assumptions have been detailed below. 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.

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 (ie loan liabilities) are to be held until maturity and therefore the net fair value figures bear little relevance to the Group.

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 2009				
+/- 1% in interest rates	+/-29	+/-29	+/-8	+/-8
+/- 10% in $A/$US	+/-92	+/-92	+/-3	+/-3
+/- 10% in lead price/tonne	+/-144	+/-144	-	-
Year ended 30 June 2008				
+/- 1% in interest rates	+/-19	+/-19	+/-17	+/-17
+/- 10% in $A/$US	+/-210	+/-210	+/-70	+/-70
+/- 10% in lead price/tonne	+/-216	+/-216	-	-

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

In the directors' opinion:

1. the financial statements and notes, as set out on pages 24 to 74, are in accordance with the *Corporations Act 2001*, including:

   a. complying with Accounting Standards; and

   b. giving a true and fair view of the financial position of the company and consolidated group as at 30 June 2009 and of the performance for the year ended on that date.

2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declaration by the Chief Executive Officer and the Chief Finance Officer required by section 295A of the *Corporations Act 2001*.

The company and its wholly-owned subsidiaries identified in Note 15 have entered into a deed of cross guarantee under which the company and these subsidiaries guarantee the debts of each other.

In the directors' opinion, at the date of this declaration there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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

Gregory Wrightson
Director
24 August 2009.

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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement 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 24 to 75. 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 compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 2009 included on 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.

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HLB Newhouse is a member of HLB 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 30 June 2009, 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 2009 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 17 to 22 of the directors' report for the year ended 30 June 2009.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 2009 complies with section 300A of the *Corporations Act 2001*.

A. T. Newhouse

Andrew Newhouse
HLB NEWHOUSE

Wollongong, 24 August 2009

HLB Newhouse

ASX additional information for listed public companies

The shareholders information set out below was applicable at 24 August 2009.

1. Shareholdings

a. Distribution of Shareholders

Category	Number of equity security holders Ordinary shares	Options	Convertible notes
1 - 1,000	232	-	-
1,001 - 10,000	569	92	-
10,001 - 100,000	1,106	323	2
100,001 and over	398	43	2
	2,305	458	4

b. The number of shareholdings held in less than marketable parcel is 803.

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

Shareholder	Number
Jiangsu Chunxing Alloy Co., Ltd	49,924,000
Chemmet Pty Limited	27,799,498
Bradleys Polaris Pty Ltd	19,277,961

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,

Options
- There are no voting rights attached to the options.

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	38.4
Linkenholt Pty Limited	200,000	30.8
Jeapna Superannuation	100,000	15.4
Austin Super Fund	100,000	15.4
	650,000	100.0

ASX additional information for listed public companies (cont'd)

Unlisted employee and director options
As at 24 August 2009, 41 employees, including 5 directors, held 18,280,000 unlisted options on issue.

f. 20 largest shareholders at 24 August 2009

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	Jiangsu Chunxing Alloy Co. Ltd.	49,924,000	13.04
2	Chemmet Pty Limited	23,546,507	6.15
3	Bradleys Polaris Pty Ltd <Bradley S/F A/C>	19,277,961	5.04
4	HSBC Custody Nominees (Australia) Limited	17,070,500	4.46
5	Penswood Pty Ltd <Penswood Super Fund Account>	15,002,000	3.92
6	Citicorp Nominees Pty Limited	13,109,611	3.43
7	Mrs Patricia Gladys Wright	12,665,000	3.31
8	Picasso Holdings International Limited	8,500,000	2.22
9	Minemet Australasia Pty Ltd	7,132,057	1.86
10	Mr Paul Guerin	5,199,800	1.36
11	Rizzo Super Pty Ltd <Rizzo Super Fund A/C>	5,000,000	1.31
12	Brian Gregory Wright & Wendy Joy Wright <B G Wright Super Fund A/C>	4,460,313	1.17
13	Sylvan Securities Pty Ltd <The Gray Super Fund Account>	4,146,739	1.08
14	Chemmet Pty Limited <Super Fund A/C>	4,097,500	1.07
15	Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	3,723,782	0.97
16	Universal Magazines Pty Ltd	3,500,000	0.91
17	HNS Investments Pty Ltd	3,328,938	0.87
18	Mr Gordon Menzies Wilson	2,940,445	0.77
19	Mr Edmond Wing Kin Cheung & Mrs Eliza Siu Ling Cheung <Edmond & Eliza S/F A/C>	2,850,000	0.75
20	Jodeen Securities Pty Ltd	2,550,000	0.67
		208,025,153	54.36

2. Stock Exchange Listing

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

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