Appendix 4 E

Preliminary final report

Name of entity:	**Hydromet Corporation Limited**

1 Details of the reporting period

Current period:	1 July 2005 – 30 June 2006
Previous corresponding period:	1 July 2004 – 30 June 2005

2 Results for announcement to the market

$A'000

2.1 Revenues from ordinary activities	down	16.4 %	to	$13,564	
2.2 (Loss) from ordinary activities after tax attributable to members	down	N/A %	to	($ 875)	
2.3 Net (loss) attributable to members	down	N/A %	to	($ 875)	

2.4 Dividends	Amount per security	Franked amount per security
Interim dividend	Nil ¢	N/A ¢
Final dividend	Nil ¢	N/A ¢

2.5 Record date for determining entitlements to dividends	N/A

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

The consolidated loss from ordinary operations for the year attributable to members of the Company was $875,059 (2005: profit $2,984,508).

The loss resulted primarily from the collapse in the selenium market experienced over the period from January to May 2006. Hydromet's focus on the precious metal/selenium recovery project in 2005 targeted production of 38 tonnes of selenium in the June quarter of 2005 in anticipation of a continuing high price and demand for selenium worldwide. In the September quarter of 2005 signs of a failing selenium market emerged which ultimately saw the price for selenium fall from an historical high of US$48 per lb in the June quarter of 2005 to bottom out at US$13.50 per lb in May 2006. The market has stabilised with the selenium price at 30 June 2006 at US$17.30 per lb. Pricing has improved further to US$22 per lb toward the end of August.

During this volatile time, the price realised on sales of selenium were well below the benchmark London Metal Bulletin price indicator. During March and April 2006 Hydromet liquidated excess selenium stocks at pricing as low as US$7 per lb or 50% of the benchmark selenium price. Demand diminished as customers waited for the possible further decline in the selenium price and consumed stocks built up during the rising market of 2005.

Selenium project profitability during the year was affected by adverse payable terms to suppliers for selenium extracted from residue. These terms were renegotiated in June to be reflective of actual pricing for selenium products finally sold by Hydromet from residue processed.

Further selenium market growth is planned for 2006/07 with other residue sources identified and trialled in the last year to determine suitability for selenium extraction and or product upgrade.

We have been successful in producing two selenium chemicals during the year which we intend to promote in the coming year.

The electric arc furnace (EAF) dust project continued during the year with better than forecast growth in zinc sulphate sales from zinc extracted from the dust. Process and cost advancements combined with the strong zinc metal price have assisted Hydromet in acquiring a substantial share of the domestic fertiliser market with further market penetration expected in 2006/07.

Treatment fees for EAF dust are now at realistic levels and zinc sulphate prices have benefited from the metal price increase in 2006. Zinc metal demand has limited availability of zinc sulphate imported from China which has traditionally been the dominant supplier to the Australian market.

Further zinc product options are being considered with possible zinc sulphate powder production under evaluation for introduction during the 2006/07 financial year. Our objective is to maximise recovery and value adding of zinc to generate valuable long term benefits for Hydromet and our clients.

The battery project proceeded in December 2005 with an order placed for state of the art battery crushing/separator equipment. The equipment was delivered in August. The processing building is under construction and commissioning is expected to commence in late September. The feed source for the plant has been finalised, lead product and plastic recycling customer's defined and base stockpile of used lead acid batteries were purchased for commencement of the project.

Arsenic waste treatment development work continued during the year with the treatment process defined and costed. Regulatory trans-boundary limitations delayed and prevented the project being carried out at Unanderra as planned. Due to timing constraints our principal client has decided to utilise a landfill disposal option in Western Australia. We are in ongoing discussion with our other major client considering onsite treatment.

3 Consolidated income statements

In thousands of AUD	Note*	Consolidated 2006	2005
Revenue from sales of goods		4,554	8,951
Revenue from rendering of services		9,010	7,274
Total revenue		13,564	16,225
Other income	3	178	188
Changes in inventories of finished goods & WIP		(1,979)	2,427
Raw materials and consumables used		(1,555)	(5,324)
Direct production costs		(5,293)	(5,154)
Personnel expenses	5	(4,112)	(3,586)
Depreciation and amortisation expenses		(483)	(381)
Consultants and professional services		(347)	(348)
Insurance expenses		(222)	(235)
Property rental and site costs		(116)	(65)
Other expenses	4	(569)	(510)
Results from operating activities		(934)	3,237
Financial income	7	101	91
Financial expenses	7	(201)	(291)
(Loss)/profit before tax		(1,034)	3,037
Income tax credit/(expense)	8	159	(52)
(Loss)/profit for the year		(875)	2,985

*Refer to the Notes of the financial statements attached.

4 Consolidated balance sheets

In thousands of AUD	**Note***	**Consolidated 2006**	**Consolidated 2005**
Assets			
Cash and cash equivalents	10	2,474	3,442
Trade and other receivables	11	2,505	2,736
Inventories	12	765	2,621
Income tax receivable	14	47	73
Total current assets		5,791	8,872
Property, plant and equipment	16	8,504	7,010
Intangible assets	17	1,045	1,036
Total non-current assets		9,549	8,046
Total assets		15,340	16,918
Liabilities			
Trade and other payables	18	1,504	4,069
Interest-bearing loans and borrowings	19	2,208	754
Employee benefits	20	299	326
Provisions	21	966	502
Total current liabilities		4,977	5,651
Interest-bearing loans and borrowings	19	1,000	519
Employee benefits	20	138	99
Provisions	21	215	775
Total non-current liabilities		1,353	1,393
Total liabilities		6,330	7,044
Net assets		9,010	9,874
Equity			
Issued capital	22	64,010	64,000
Accumulated losses	22	(55,000)	(54,126)
Total equity		9,010	9,874

*Refer to the Notes of the financial statements attached.

5 Consolidated statement of cash flows

In thousands of AUD	Note*	Consolidated 2006	2005
Cash flows from operating activities			
Cash receipts from customers		13,999	17,005
Cash paid to suppliers and employees		(14,816)	(12,889)
Cash (used in)/generated from operations		(817)	4,116
Interest received		101	91
Interest paid		(194)	(269)
Income taxes paid		-	(33)
Net cash (Used in)/from operating activities	29	(910)	3,905
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,042)	(909)
Proceeds from sale of property, plant and equipment		50	8
Exploration, evaluation and development expenditure		-	(70)
Net cash used in investing activities		(1,992)	(971)
Cash flows from financing activities			
Payment of finance lease liabilities		(102)	(76)
Proceeds from issue of debentures		850	-
Issuing costs of debentures capitalised		(30)	-
Repayments of borrowings		-	(678)
Proceeds from borrowings		1,216	-
Net cash from/(used in) financing activities		1,934	(754)
Net (decrease)/increase in cash and cash equivalents		(968)	2,180
Cash and cash equivalents at 1 July		3,442	1,262
Cash and cash equivalents at 30 June	10	2,474	3,442

*Refer to the Notes of the financial statements attached.

6 Details of dividends/distributions

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

			Amount per security	Franked amount per security at % tax	Amount per security of foreign source dividend
6.3	**Final dividend:**	Current year	- ¢	- ¢	- ¢
6.4		Previous year	- ¢	- ¢	- ¢
6.5	**Interim dividend:**	Current year	- ¢	- ¢	- ¢
6.6		Previous year	- ¢	- ¢	- ¢

7 Details of dividend reinvestment plan

At 30 June 2006 there was a dividend reinvestment plan in operation for Hydromet Corporation Limited.

8 Statement of retained earnings showing movements

Refer Note 22 of the attached financial statements.

9 Net tangible assets per security

The net tangible asset per security was 2.70 cents. Net tangible assets are the net assets of the Company less the intangible assets. The number of shares used for the calculation of the net tangible assets per share is 295,297,585 shares.

10 Control gained or lost over entities during the period

N/A

11 Details of associates and joint venture entities

N/A

12 Other significant information

International Financial Reporting Standard

Refer Note 33 of the attached financial statements.

13 Accounting Standards used by foreign entities

N/A

14 Commentary on the results for the period

14.1 Earning per security

Refer Note 9 of the attached financial statements

14.2 Returns to shareholder

Refer attached financial statements and the accompanied notes.
There was no share buy back during the period.

14.3 Significant features of operating performance

Refer attached financial statements and the accompanied notes.

14.4 Segment reporting

Refer Note 2 of the attached financial statements.

14.5 Trend in performance

Year	Total Revenue $'000	Net Profit/(loss) after Tax $'000	Total Assets $'000
2006*	13,564	(875)	15,340
2005*	16,225	2,985	16,918
2004	9,697	(990)	14,106
2003	4,757	(4,453)	13,315
2002	11,611	1,428	18,205

*Figures for year 2006 and 2005 were calculated in accordance with Australian equivalents to IFRS (AIFRS).

14.6 Other factors

Refer the attached Financial Report.

15 Audit/review of accounts upon which this report is based

☑ The accounts have been audited.

☐ The accounts have been subject to review.

☐ The accounts are in the process of being audited or subject to review.

☐ The accounts have *not* yet been audited or reviewed.

16 Accounts not yet audited or reviewed

N/A

17 Qualification of audit/review

N/A

Annual Report

Hydromet Corporation Limited
and its Controlled Entities

ABN 71 002 802 646

30 June 2006

Offices and officers

Principal registered office
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
Facsimile: 02 4271 6151
www.hydromet.com.au

Company Secretary
Mr Pipvide S Tang

Offices
Hydromet Corporation Limited
Hydromet Operations (Southern) Limited
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
Facsimile: 02 4271 6151
www.hydromet.com.au

Hydromet Operations Limited
Tasmania operation
Risdon Road
New Town TAS 7008

Telephone: 03 6278 9287
Facsimile: 03 6278 9320

Minmet Operations Pty Limited
25 School Drive
Tomago NSW 2322

Telephone: 02 4964 8266
Facsimile: 02 4966 5958

Location of share registry
Sydney
Computershare Investor Services Pty Limited
Level 3 60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000
Facsimile: 02 8234 5050
Investor enquiries: 1300 855 080

Stock Exchange
The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other information
Hydromet Corporation Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Auditor
KPMG
Level 3
63 Market Street
PO Box 866
Wollongong NSW 2500

Hydromet Corporation Limited and its controlled entities June 2006 annual financial report

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Chairperson's report

For the year ended 30 June 2006

The downturn in profitability resulting in the year loss of $875,059 compared to the profit of $2,984,508 from the previous year was due principally to the collapse of the international market in selenium during the second half of the financial year. During the year 2005/6 the company was relying heavily on profitability from our then core business of selenium whilst building up our other projects in EAF dust and zinc chemicals. The now increased treatment fee revenue from EAF dust and the strengthening demand for our zinc sulphate products only emerged in the latter part of the reporting year and was too late to mitigate the full year loss.

Measures taken during the year to strengthen these other core businesses along with a sustained recovery of the selenium market have meant a brighter start to the new financial year. We intend to remain a strong force in the selenium market as present demand and supply appear balanced and increased usage by the glass industry indicates a good market in the future. Selenium has to be extracted as a by-product principally from copper smelter side streams and Hydromet now has potential long term contracts with a number of blue-chip international initiators of these streams. We are also producing a wider selection of selenium products for the world market.

The increased price of zinc metal in world markets has resulted in significant price rises for the zinc sulphate products originating from our EAF dust treatment project at Unanderra. We have improved both our operating costs and plant efficiency and are now very competitive with Chinese imports and have increased the range of zinc sulphate based products to further consolidate our position in the local market.

We are in the process of completing the installation of the new battery recycling plant at Unanderra which should be commissioned this October. This project is expected to contribute substantially to both revenues and profit in the current financial year. Both supply agreements for used batteries and sales contracts for the individual final lead products of the recycling plant have already been established.

As the company is now generating revenue from a multitude of different sources we expect Hydromet to perform very well in this financial year. We also expect to look for growth opportunities by acquisition or further internal expansion of existing businesses in the year ahead.

On behalf of the Board of Directors I would like to thank all personnel at Hydromet for their effort and dedication and look forward to their contribution to our expected success in the coming year. I would also like to extend my gratitude to our loyal shareholders for their past and continued support.

We all look forward to a much improved financial year.

Dr Lakshman Jayaweera
Chairperson

Date this 7 September 2006

Directors' report
For the year ended 30 June 2006

The directors present their report together with the financial report of Hydromet Corporation Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2006 and the auditor's report thereon.

Directors' report (continued)

For the year ended 30 June 2006

1. Directors

The directors of the company at anytime during or since the end of the financial year are:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Dr Lakshman D Jayaweera MSc, PhD Executive Chairperson	Dr Jayaweera is one of the founders and the head of the technical team of the Company. He holds a PhD in Chemical Engineering and has considerable experience in mineral processing and hazardous waste recycling. Director since 1991- Deputy Chairperson from September 2000 to January 2001 and appointed Chairperson in January 2001.
Mr Timothy R Allen Deputy Chairperson Independent Non-Executive Director	Mr Allen has extensive engineering and banking experience with qualifications in mining, engineering and economics and is a member of the Securities Institute of Australia. He is also a director of Morning Star Gold NL and Central West Gold NL. Member of Audit and Remuneration Committee. Director since October 2001 - appointed deputy Chairperson in February 2006.
Mr Gregory W Wrightson Managing Director	Mr Wrightson has over 19 years experience in chemical manufacturing and was appointed General Manager of the Company in 1997. Director since 1998 - appointed Managing Director in September 2000.
Mr Stephen H Kwan, MPhil Independent Non-Executive Director	Mr Kwan has over 26 years experience in metals and chemicals trading and is a co-founder of the Kee Shing Group in Hong Kong. Member of the Audit and Remuneration Committee. Director since 1991.
Mr Pipvide S Tang, MBA, CPA Finance Director	Mr Tang has more than 25 years experience in accounting, corporate finance and administration. He is also a director of Optima ICM Limited. Director from 1991 to 1996. Appointed director in 1997. Mr Tang was a non-executive Director from August 2000 to August 2004.
Mr Stephen B Wolfe, MBA Non-Executive Director	Mr. Wolfe has 20 years experience in the banking, resource, logistic, chemicals and raw materials industries. Member of Audit and Remuneration Committee. Director since February 2004.

Directors' report (continued)
For the year ended 30 June 2006

2. Company secretary
Mr. Pipvide S Tang MBA, CPA was appointed to the position of company secretary in April 2003. 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 and has held the role of company secretary with another listed public company for the past four years.

3. Directors' meetings
The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit and Remuneration Committee Meetings	
	A	**B**	**A**	**B**
Mr SH Kwan	8	10	4	4
Mr GW Wrightson	10	10	-	-
Dr LD Jayaweera	9	10	-	-
Mr PS Tang	10	10	-	-
Mr TR Allen	10	10	4	4
Mr SB Wolfe	10	10	4	4

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

4. 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.

4.1 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 consolidated entity 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. Responsibilities are delineated by formal authority delegations.

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 consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

Directors' report (continued)
For the year ended 30 June 2006

4.1 Board of Directors (continued)
Board processes (continued)
The full Board currently holds ten 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 consolidated entity has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity 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 suitable qualified adviser at the consolidated entity'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.

Composition of the board
The names of the directors of the Company in office at the date of this report are set out in the Directors' report on page 3 of this report.

The composition of the board is reviewed by the Audit and Remuneration Committee to ensure that the board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or it is considered the board could benefit from the services of a new director with particular skills, the committee will select a panel of candidates with the appropriate expertise and experience. The board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. At each annual general meeting of members one-third of the board automatically retire by rotation and are eligible for re-appointment by the members.

The composition of the board is determined using the following principles:
- a minimum of five directors, with a broad range of expertise
- a majority of directors having extensive knowledge of the Company's industries, or an extensive expertise in significant aspects of auditing, financial reporting, and the risk management of large companies
- enough directors to serve on 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
- the Audit and Remuneration Committee is comprised of non-executive directors.

Directors' report (continued)
For the year ended 30 June 2006

4.1 Board of Directors (continued)
Composition of the board (continued)
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 area:
- the board comprises two independent non-executive directors, one non-executive director and three executive directors. Non-executive directors do not play a role in the day to day management of the company
- an executive director is the Chairperson
- no Nomination Committee has been established. The Audit & Remuneration Committee is responsible for the selection and nomination of new directors

An independent director is a director who is not a member of management (a non-executive director) and who:
- hold 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 other shareholders 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
- is free from any interest and any business or other relationship which could, or could reasonably by 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.*

4.2 Audit and Remuneration Committee
The Audit and Remuneration Committee has a documented charter, approved by the Board. 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 consolidated entity, 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
- Mr SH Kwan, MPhil, ATI, MBIM - Independent Non-Executive
- Mr. SB Wolfe, MBA – Non-Executive

The external auditors, the Managing Director and the Finance Director, are invited to audit and remuneration committee meetings at the discretion of the committee. The committee met four times during the year and the committee members' attendance record is disclosed in the table of directors' meetings on page 4.

Directors' report (continued)
For the year ended 30 June 2006

4.2 Audit and Remuneration Committee (continued)
The Managing Director and the Finance Director 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 2006 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 themselves of the Company and of other group executives for the consolidated entity. 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 Remuneration report is set out on pages 8 to 14 and forms part of the directors' report for the financial year ended 30 June 2006.

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 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 performance criteria takes into account each director'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 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.

The committee also conducts an annual review of the performance of the Managing Director and the senior executives reporting directly to him and the results are discussed at a board meeting.

Directors' report (continued)
For the year ended 30 June 2006

4.2 Audit and Remuneration Committee (continued)
The responsibilities of the audit and remuneration committee include:
- reviewing the annual, half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Equivalents to International Reporting Standards (AIFRS), and assessing whether the financial information is adequate for shareholder needs
- assessing corporate risk assessment process
- reviewing the Company's policies and procedures for convergence with Australian Equivalents to International Reporting Standards (AIFRS) for reporting periods beginning on 1 July 2005
- 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 Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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 auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

4.3 Remuneration report
4.3.1 Principles of compensation - audited
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 consolidated entity, including directors of the Company and other executives. Key management personnel includes the most highly remunerated S300A directors and executives for the Company and the consolidated entity.

Directors' report (continued)
For the year ended 30 June 2006

4.3 Remuneration report (continued)
4.3.1 Principles of compensation – audited (continued)
Compensation levels for key management personnel and secretaries of the Company, and relevant key management personnel of the consolidated entity 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 consolidated 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 performance
- the consolidated entity's performance including:
  - the consolidated entity's earnings
  - the growth in share price and delivering constant returns on shareholder wealth
- the amount of incentives within each key management person's compensation

Compensation packages include fixed compensation and long-term incentives.

In additional to their salaries, the consolidated entity 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.

The Company has no schemes for retirement benefit, other than statutory superannuation, for non-executive directors.

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 consolidated entity. A senior executive's compensation is also reviewed on promotion.

Long-term incentive
Options were issued under the approval of shareholders at the 2002 AGM, and it provided for directors to receive up to an aggregate of 10,000,000 options over ordinary shares for no consideration. These options have an exercise price of 8 cents and expire on 31 March 2007. The price of shares on the date of granting the options was 4.7 cents. There are differing vesting dates in four parcels of 2,500,000 vesting annually for four years commencing on 31 December 2003. The ability to exercise the options is not conditional on the consolidated entity achieving certain performance hurdles.

No options have been exercised during the financial year.

Directors' report (continued)
For the year ended 30 June 2006

4.3 Remuneration report (continued)
4.3.1 Principles of compensation – audited (continued)
Consequences of performance on shareholders wealth

In considering the consolidated entity'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 two financial years.

In thousands of AUD	2006	2005	2004
Net profit/(loss) attributable to equity holders of the parent	(875)	2,021	(990)
Dividends paid	-	-	-
Change in share price	-1.50 cents	0.71 cents	-0.5 cents

Net profit/(loss) for years 2004 to 2005 was calculated in accordance with previous Australian GAAP. Net profit for 2006 has been calculated in accordance with Australian equivalents to IFRS (AIFRS). For the impact on net profit of transition to AIFRS see Note 33 to the financial statements.

The overall level of key management personnel's compensation takes into account the performance of the consolidated entity over the last three years.

Other benefits

Executive directors and senior executives can receive additional 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, legal expense insurance contracts, and where applicable, any fringe benefits tax.

The executive directors and senior executives are entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. The Company has no schemes for retirement benefits, other than statutory superannuation, for executive directors and senior executives.

Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

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 have been increased on 1 July 2005 to $35,000 per annum. Non-executive directors also receive a base fee of $5,000 per annum if they are appointed as directors of controlled entities. The Chairperson and committee members receive no extra fees. Directors' fees cover all main board activities and membership of the committee.

Other than the share options issued under the approval of 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. The Company has no schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

Directors' report (continued)

For the year ended 30 June 2006

4.3 Remuneration report (continued)

4.3.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited

The Company has no senior executives who are not a director of the Company. Details of the nature and amount of each major element of the remuneration of each director of the Company are:

		Short-term		Post-employment	Share-based payments	Other compensation		
In AUD		Salary & fees $	Non-monetary benefits $	Super-annuation benefits $	Options and rights (i) $	Insurance Premium (ii) $	Total $	Value of options as proportion of remuneration %
Directors								
Non-executive								
Mr SH Kwan	2006	34,999	-	3,150	-	7,527	45,676	-
	2005	25,000	-	2,250	-	8,362	35,612	-
Mr TR Allen	2006	42,499	-	3,825	-	7,527	53,851	-
	2005	33,884	-	3,399	-	8,362	45,645	-
Mr SB Wolfe	2006	36,039	-	3,244	-	7,527	46,810	-
	2005	25,000	-	2,250	-	8,362	35,612	-
Executive								
Dr LD Jayaweera	2006	190,000	41,830	17,100	-	7,527	256,457	-
Chairperson	2005	172,499	36,085	15,525	-	8,362	232,471	-
Mr GW Wrightson	2006	205,832	21,312	18,525	-	7,527	253,196	-
Managing Director	2005	181,249	17,776	22,896	-	8,362	230,283	-
Mr PS Tang	2006	95,320	32,665	9,000	-	7,527	144,512	-
Finance Director	2005	92,028	25,874	8,633	-	8,362	134,897	-
Total compensation:	2006	604,689	95,807	54,844	-	45,162	800,502	-
key management personnel (consolidated)	2005	529,660	79,735	54,953	-	50,172	714,520	-
Total compensation:	2006	604,689	95,807	54,844	-	45,162	800,502	-
key management personnel (company)	2005	529,660	79,735	54,953	-	50,172	714,520	-

Directors' report (continued)
For the year ended 30 June 2006

4.3 Remuneration report (continued)
4.3.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited (continued)
(i) 2,000,000 options were issued to each of Mr. G Wrightson, Dr. L Jayaweera, Mr. S Kwan, Mr. P Tang and Mr. T Allen on 19 December 2002 of which 1,500,000 out of the 2,000,000 options were vested and exercisable at the reporting date. The fair value of the options were independently valued at the date of grant using the Black-Scholes 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 allocated to this reporting period.

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

Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
19 December 2002	31 March 2007	$Nil	$0.08	$0.047	7.31%	4.79%	N/A

Estimated volatility approximates historic volatility. Each option entitles the holder to purchase one ordinary share in the Company. 2,500,000 options are exercisable after 31 December 2003; 2,500,000 after 31 December 2004; 2,500,000 after 31 December 2005 and 2,500,000 after 31 December 2006. All options expire on 31 March 2007.

(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.

4.3.3 Equity instruments - audited
All options refer to options over ordinary shares of Hydromet Corporation Limited, which are exercisable on a one-for-one basis under the approval of shareholders at the 2002 AGM.

4.3.4 Options and rights over equity instruments granted as compensation
No options have been granted during or since the end of the financial year.

Details of options that vested during the reporting period are as follows:

	Number of options vested during 2005	Number of options vested during 2006	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date
Directors					
Mr. SH Kwan	500,000	500,000	nil	0.08	31 March 2007
Mr. TR Allen	500,000	500,000	nil	0.08	31 March 2007
Dr LD Jayaweera	500,000	500,000	nil	0.08	31 March 2007
Mr. GW Wrightson	500,000	500,000	nil	0.08	31 March 2007
Mr. PS Tang	500,000	500,000	nil	0.08	31 March 2007

Directors' report (continued)
For the year ended 30 June 2006

4.3 Remuneration report (continued)
4.3.5 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.

4.3.6 Analysis of options and rights over equity instruments granted as compensation
Details of vesting profiles of the options granted as remuneration to each director of the Company are detailed below:

Directors	Options granted		% vested in year	Forfeited in year	Financial years in which grant vests	Value yet to vest $ (i)	
	Number	Date				Min	Max
Mr. SH Kwan	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
	500,000	19 December 2002	-%	-%	I July 2007	-	-
Mr. TR Allen	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
	500,000	19 December 2002	-%	-%	I July 2007	-	-
Dr LD Jayaweera	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
	500,000	19 December 2002	-%	-%	I July 2007	-	-
Mr. GW Wrightson	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
	500,000	19 December 2002	-%	-%	I July 2007	-	-
Mr. PS Tang	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
	500,000	19 December 2002	-%	-%	I July 2007	-	-

(i) The minimum and maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date the option is exercised. The values presented above are based on the assumption that the share price on the date the option is exercised does not exceed $0.08. This share price represents a maximum price included in the volatility assumption within the valuation of the options.

Directors' report (continued)
For the year ended 30 June 2006

4.3 Remuneration report (continued)
4.3.7 Analysis of movement in options -unaudited
During or since the end of the financial year, the Company has not granted or forfeited any options over unissued shares and has not issued ordinary shares as a result of the exercise of options.

4.4 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 consolidated entity. The Managing Director and the Finance Director 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 consolidated entity.

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
- Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where business 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.

Directors' report (continued)
For the year ended 30 June 2006

4.4 Risk management (continued)
Comprehensive practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval
- 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)
- Environmental regulation compliance (see below)

Quality and integrity of personnel
Written confirmation of compliance with policies in the Ethical Standards Manual is obtained from all operating units. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with 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 Finance Director 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.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) has been a key financial reporting project during the financial year ended 30 June 2006. The board established a formal project, monitored by the Finance Director, to ensure a smooth transition to AIFRS reporting.

Details of the impact of the transition from previous Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS on the financial report for the financial year ended 30 June 2006 is included in Note 33 to the financial statements.

Environmental regulation
The Consolidated Entity'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 Consolidated Entity 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.

Directors' report (continued)
For the year ended 30 June 2006

4.4 Risk management (continued)
Environmental regulation (continued)
Site managers report environmental performance to the 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, including processing facilities in New Zealand.

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

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

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

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

Continuing advancement has been made with the integrated Safety Management System during the financial year. Training of managers and operations personnel is a continuous process to ensure a duty of care philosophy is adopted across the group.

We are pleased to report that there were no serious injuries or lost time incidents during the financial year.

4.5 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 consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The board reviews the Ethical Standards policy regularly and processes are in place to promote and communicate these policies. The policy is available at the office of the Company.

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 consolidated entity are set out in Note 30 to the financial statements.

Directors' report (continued)
For the year ended 30 June 2006

4.5 Ethical standards (continued)
Code of conduct

The consolidated entity 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 practice such as occupational health and safety, employment opportunities, the 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
- reporting of unethical behaviour.

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 and 30 days after either the release of the Company's half-year and annual results to the Australian Stock Exchange ("ASX"), the annual general meeting or any major announcement
  - whilst in possession of price sensitive information not yet released to the market
  - raising the awareness of legal prohibitions including transactions with colleagues and external advisers
  - requiring details to be provided of intended trading in the Company's shares
  - requiring details to be provided of the subsequent confirmation of the trade
  - 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.

Directors' report (continued)
For the year ended 30 June 2006

4.6 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 process operates as follows:

- the Managing Director and the Finance Director, who also acts as the Company Secretary, are responsible for interpreting the company's policy and where necessary informing the board. The Finance Director 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 consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it
- proposed major changes in the consolidated entity 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
- 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 consolidated entity'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.

5. Principal activities
The principal activities of the consolidated entity during the course of the financial year were the processing of industrial residues and the manufacture of value added chemical products therefrom.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

Objectives
The consolidated entity's objectives include:
- Continue to identify and implement recycling opportunities particularly where value adding options are available.
- Build sustainable profitability through increased growth in the zinc sulphate business generated from the processing of Electric Arc Furnace (EAF) dust during the next financial year.
- Complete evaluation studies aimed at production of other zinc based product options from remaining EAF dust beyond zinc sulphate sale expectations.
- Introduce the Used Lead Acid Battery (ULAB) recycling project at the Unanderra plant in the December 2006 quarter.
- Broaden and strengthen the precious metals/selenium recovery project and revenue at the Company's Newcastle facility.
- Deliver a sustainable and adequate return on equity.

Directors' report (continued)
For the year ended 30 June 2006

5. Principal activities (continued)
Objectives (continued)
- Identify additional major waste treatment projects within which Hydromet's recognised unique processing technology can be applied.
- Increase our customer base and satisfaction with our services and products.

In order to meet these objectives the following targets have been set for the 2007 financial year and beyond:
- Firmly establish a significant position in the domestic zinc sulphate market.
- Continue to build on our established precious metal/selenium residue processing activities to increase revenues and minimise the impact of the affects of volatile changes in metal prices.
- Grow market share in existing waste treatment and product sales to increase revenue and operating activities.
- Continued review of process cost structures to reduce costs and optimise process activities.
- Review pricing regularly.
- Continue to develop new business projects to maximise utilisation of the Company's infrastructure and resources.

6. Operating and financial review
Overview of the consolidated entity
The consolidated loss from ordinary operations for the year attributable to members of the Company was $875,059 (2005: profit $2,984,508).

The loss resulted primarily from the collapse in the selenium market experienced over the period from January to May 2006. Hydromet's focus on the precious metal/selenium recovery project in 2005 targeted production of 38 tonnes of selenium in the June quarter of 2005 in anticipation of a continuing high price and demand for selenium worldwide. In the September quarter of 2005 signs of a failing selenium market emerged which ultimately saw the price for selenium fall from an historical high of US$48 per lb in the June quarter of 2005 to bottom out at US$13.50 per lb in May 2006. The market has stabilised with the selenium price at 30 June 2006 at US$17.30 per lb. Pricing has improved further to US$22 per lb toward the end of August.

During this volatile time, the price realised on sales of selenium were well below the benchmark London Metal Bulletin price indicator. During March and April 2006 Hydromet liquidated excess selenium stocks at pricing as low as US$7 per lb or 50% of the benchmark selenium price. Demand diminished as customers waited for the possible further decline in the selenium price and consumed stocks built up during the rising market of 2005.

Selenium project profitability during the year was affected by adverse payable terms to suppliers for selenium extracted from residue. These terms were renegotiated in June to be reflective of actual pricing for selenium products finally sold by Hydromet from residue processed.

Further selenium market growth is planned for 2006/07 with other residue sources identified and trialled in the last year to determine suitability for selenium extraction and or product upgrade.

We have been successful in producing two selenium chemicals during the year which we intend to promote in the coming year.

Directors' report (continued)

For the year ended 30 June 2006

6 Operating and financial review (continued)

Overview of the consolidated entity (continued)

The electric arc furnace (EAF) dust project continued during the year with better than forecast growth in zinc sulphate sales from zinc extracted from the dust. Process and cost advancements combined with the strong zinc metal price have assisted Hydromet in acquiring a substantial share of the domestic fertiliser market with further market penetration expected in 2006/07.

Treatment fees for EAF dust are now at realistic levels and zinc sulphate prices have benefited from the metal price increase in 2006. Zinc metal demand has limited availability of zinc sulphate imported from China which has traditionally been the dominant supplier to the Australian market.

Further zinc product options are being considered with possible zinc sulphate powder production under evaluation for introduction during the 2006/07 financial year. Our objective is to maximise recovery and value adding of zinc to generate valuable long term benefits for Hydromet and our clients.

The battery project proceeded in December 2005 with an order placed for state of the art battery crushing/separator equipment. The equipment was delivered in August. The processing building is under construction and commissioning is expected to commence in late September. The feed source for the plant has been finalised, lead product and plastic recycling customer's defined and base stockpile of used lead acid batteries were purchased for commencement of the project.

Arsenic waste treatment development work continued during the year with the treatment process defined and costed. Regulatory trans-boundary limitations delayed and prevented the project being carried out at Unanderra as planned. Due to timing constraints our principal client has decided to utilise a landfill disposal option in Western Australia. We are in ongoing discussion with our other major client considering onsite treatment.

Investment for future performance

Hydromet commenced construction of the used lead acid battery processing building at Unanderra NSW in July. Total forecast capital cost of the building, battery breaker/separator and support services etc, is $2.6 million.

The battery breaker/separation equipment, manufactured in Mexico, arrived during the fourth week of August.

The plant is designed to process in excess of 24,000 tonnes of used batteries per annum and expected to commence commissioning in October 2006.

Hydromet's investment in the battery recycling project represents a long term commitment to the project where Hydromet's lead products will be high quality sought after feed for secondary lead smelters around the world.

Directors' report (continued)

For the year ended 30 June 2006

6 Operating and financial review (continued)

Review of financial condition

During the financial year, the consolidated entity has extended the maturity dates of $700,000 debentures for another twelve months. In addition, $850,000 new debentures were issued during the year. These debentures have a term of two years from the date of issue.

The consolidated entity also successfully negotiated with its banker to finance the acquisition of the battery crushing plant and partly finance the new building to house the new facility.

The net cash used in operating activities during the year was $911,000. The net cash used in investing activities was $2,001,000. Net cash provided by financing activities was $1,944,000. The cash balance at the end of the financial year was $2,474,000.

Review of principal business

Hydromet Operations (Southern) Limited – Unanderra NSW

The Unanderra facility processed EAF dust from three steel mini mill plants during the year.

A total of 24,501 tonnes of EAF dust was processed for the year, an increase of 7,532 tonnes compared to 2005. Economies of scale were demonstrated during the six month process maximisation and research and development exercises, which were concluded in October 2005.

A research and development programme was introduced in 2006 to address specific dust and zinc sulphate production technical issues in conjunction with one of our EAF dust clients. The programme has already proven valuable and generating benefits for both parties. The programme is scheduled to continue over the next 18 months.

The company has produced 1,256 tonnes of zinc sulphate after improving process conditions and controls and reduced unit costs of production. A new zinc sulphate product was introduced to the market by Hydromet with better than forecast success achieved over the 5 months ending June 2006. The record zinc metal price which is continuing has also enabled us to improve selling prices since May 2006.

A plant trial will be conducted in October with a major mining operation in Queensland who has an annual requirement for approximately 3,000 tonnes of Hydromet's 19% zinc sulphate. If successful and with negotiations finalised supply could commence from October 2006. This is a significant opportunity and would provide a strong zinc sulphate sales base for the Unanderra site.

Evaluation of other zinc recovery options is continuing with new product possibilities and alliances with other zinc processors under discussion.

Other minor immobilisation work was carried out during the year for two local industrial customers.

Directors' report (continued)
For the year ended 30 June 2006

6 Operating and financial review (continued)
Review of principal business (continued)
Hydromet Operations (Southern) Limited – Unanderra NSW (continued)
Construction of the used lead acid battery (ULAB) building commenced in late June with processing equipment due for delivery by mid August and commissioning to commence in October. Battery breaker capacity is 10 tonnes of ULAB per hour or up to 40,000 tonnes per annum on a two shift basis. With current annual approved throughput limit of 12,000 tonnes we have ample excess capacity to increase production once the operation is established.

At this stage we expect to export lead products from the project. Waste acid from the batteries will be consumed in our zinc sulphate project and will substitute for some of the concentrated acid required in the production process.

Minmet Operations Pty Limited - Tomago NSW
The result for the year at Minmet was hindered considerably by the adverse selenium market conditions experienced over almost the entire year. With the selenium price falling from US$48 to US$13.50 per lb during the year along with the benchmark price in excess of realisable selenium sales prices the financial outcome was incomparable with our forecast.

Measures adopted to minimise the impact did limit our losses and enabled us to liquidate stock before the market reached its lowest point in May 2006.

Steps taken to improve payment terms for selenium feed have been successful and will be reflected as we move forward in 2006/07.

Despite the difficult market conditions experienced in the financial year there is no doubt that Minmet has established a prominent and acknowledged position in the world market of selenium. Through specialised treatment techniques developed at our Minmet facility we are able to process a range of precious metal/selenium bearing residues which other processors cannot. We earn treatment fees from our clients and sell selenium products generated from selenium we recover from the residues. Our residue supply base increased during 2005/06 with new clients from Canada and South Africa taking advantage of our treatment process to realise precious metal values contained in their residues. Further exploration of other prospective clients is expected to yield additional selenium and tellurium opportunities for Minmet over the coming year.

Similarly improved selenium payment terms are expected to result in stable long term relationships where exposure to sharp changes in the metal price can be minimised. Minmet is one of five processors around the globe recognised by major mining and smelter operators including; Falconbridge in Europe, Kennecott Copper in Utah USA, Inco in Canada and Impala Platinum in South Africa.

Selenium chemical production will also continue at Minmet to establish product options and diversity and combat metal price variations through premium values for selenium used in chemical manufacture.

Our strategy is to strengthen and consolidate our market position in the 2006/07 through additional residue suppliers and selenium customers. Consolidation occurring in the industry may also present opportunities to Minmet.

Directors' report (continued)
For the year ended 30 June 2006

6 Operating and financial review (continued)

Lead slag project – Wellington New Zealand

With the initial slag treatment project completed in September 2004, Hydromet treated arisings onsite during the year.

Immobilisation process plant improvements will be introduced in the coming year which will facilitate our transferring the processing function to the client's management at the Smelter. Once established we expect to licence the lead slag immobilisation technology to the client. We expect this to take place before December 2006.

Hydromet Operations Limited – Hobart Tasmania

Hydromet has provided a treatment solution for mercury waste for our client. The process is costly and requires approved landfill access. Landfill access is yet to be confirmed and a pilot plant trial will be required before a final treatment agreement can be negotiated. At the time of this report the decision is in the hands of the client and we expect the matter to be resolved in the September quarter 2006.

The Stanton project – NT

The Company continued to attempt to identify a buyer or a joint venture partner to explore the Stanton Prospect. The Company is currently negotiating with a party which is interested in acquiring the project under an option arrangement. We expect the transaction could be concluded in 2006/07.

Arsenic project – WA

The arsenic treatment project planned for our client in WA will not proceed due to delays experienced seeking NSW EPA approval for treatment to be carried out at our Unanderra facility and the tight time constraint of our client. The cost to treat the waste is high and our client has opted for an intractable waste landfill option available to them within Western Australia.

Another prospective client in WA is considering onsite processing of its arsenic waste using Hydromet to carry out the treatment.

Significant changes in the state of affairs

On 3 August 2005 the Company issued 166,000 ordinary shares at 6.0241 cents per share to a party as consideration for surrendering the right to register a mining mortgage on the Stanton Prospect, a mining tenement owned by a controlled entity.

During the financial year, the consolidated entity has extended the maturity dates of $700,000 debentures for another twelve months. In addition, $850,000 debentures were issued during the year. These debentures have a term of two years from the date of issue.

Directors' report (continued)
For the year ended 30 June 2006

7 Dividends
There were no dividends paid or declared by the Company to members since the end of the previous financial year.

8 Event subsequent to reporting date
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

9 Likely developments
- The Company will continue to grow its market share for our zinc sulphate produced from EAF dust at Unanderra.
- The management is confident that a major customer plant trial for zinc sulphate in August will lead to a 2 to 3 year supply agreement.
- The battery recycling project will be commissioned in October with the plant expected to operate at 1,000 tonnes per month by January/February 2007. ULAB supply and customers have been settled for lead and plastic products generated from the process at the Unanderra facility.
- With the recent focus on the precious metals/selenium residue business conducted at Minmet, we planned to increase activity in this area.

10 Directors' interest
The relevant interest of each director in the shares issued by the Company, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Hydromet Corporation Limited	
Directors	**Options over ordinary shares**	**Ordinary shares**
Mr TR Allen	2,000,000	2,300,000
Dr LD Jayaweera	2,000,000	41,544,395
Mr SH Kwan	2,000,000	46,000
Mr PS Tang	2,000,000	859,000
Mr GW Wrightson	2,000,000	578,300
Mr SB Wolfe	-	25,000,000

Directors' report (continued)
For the year ended 30 June 2006

11 Share options
During or since the end of the financial year no options were granted by the Company.

Unissued shares under options
At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
16 February 2007	$0.08	5,315,000
31 March 2007	$0.08	10,000,000
		15,315,000

The options expiring on 16 February 2007 can be exercised from 16 February 2005.

The options expiring on 31 March 2007 vest in four parcels of 2,500,000 options, vesting annually for four years commencing on 31 December 2004.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

During or since the end of the financial year, the Company has not issued ordinary shares as a result of the exercise of options.

12 Indemnification and insurance of officers
Indemnification
Under the terms of agreements entered into in May 2005 the Company has agreed 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 SB Wolfe, 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.

Insurance premium
Since the end of the previous financial year the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, including senior executive officers of the Company and directors, and executive officers and secretaries of its controlled entities. The insurance premiums relate to:
- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The directors have not included details of the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts.

Directors' report (continued)
For the year ended 30 June 2006

12 Indemnification and insurance of officers (continued)
Insurance premium (continued)

Other than the matters discussed above, the Company has not, during or since the financial year, in respect of any person who is or has been an officer of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

13 Non-audit services
During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Remuneration Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Remuneration Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amount paid to the auditor of the Company, KPMG and its related practices for audit and non-audit services provided during the year are set out below.

	Consolidated	
	2006	**2005**
	$	**$**
Audit service:		
- audit and review of financial reports (KPMG Australia)	76,910	70,137
- audit of first time AIFRS adoption	20,829	-
	97,739	70,137
Services other than statutory audit:		
Other regulatory audit service		
- Worker Compensation Review (KPMG Australia)	1,050	1,000
- Research & Development Review (KPMG Australia)	3,500	-
Other services		
- IFRS training services (KPMG Australia)	-	5,000
- taxation compliance services (KPMG Australia)	13,270	26,233
- taxation compliance services (KPMG New Zealand)	15,350	26,482
	33,170	58,715

Directors' report (continued)
For the year ended 30 June 2006

14 Lead auditor's independence declaration
The lead auditor's independence declaration is set out on page 77 and forms part of the directors' report for the financial year ended 30 June 2006.

15 Rounding off
The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

GW Wrightson
Director

Dated at Unanderra this 7 September 2006

Hydromet Corporation Limited and its Controlled Entities
Income statements
For the year ended 30 June 2006

		Consolidated		The Company	
In thousands of AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Revenue from sales of goods		4,554	8,951	15	-
Revenue from rendering of services		9,010	7,274	988	1,641
		13,564	16,225	1,003	1,641
Other income	3	178	188	119	163
Changes in inventories of finished goods & WIP		(1,979)	2,427	-	-
Raw materials and consumables used		(1,555)	(5,324)	(101)	(187)
Direct production costs		(5,293)	(5,154)	(897)	(1,108)
Personnel expenses	5	(4,112)	(3,586)	(1,233)	(1,346)
Depreciation and amortisation expenses		(483)	(381)	(72)	(79)
Write back provision for intercompany loans and investments		-	-	55	5,111
Consultants and professional services		(347)	(348)	(323)	(294)
Insurance expenses		(222)	(235)	(70)	(84)
Property rental and site costs		(116)	(65)	(17)	(21)
Other expenses	4	(569)	(510)	(307)	(269)
Results from operating activities		(934)	3,237	(1,843)	3,527
Financial income	7	101	91	88	72
Financial expenses	7	(201)	(291)	(16)	(57)
(Loss)/profit before tax		(1,034)	3,037	(1,771)	3,542
Income tax credit/(expense)	8	159	(52)	159	(52)
(Loss)/profit for the year		(875)	2,985	(1,612)	3,490
Basic and diluted earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company	9	(0.296) (cents)	1.052 (cents)		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 32 to 73.

Hydromet Corporation Limited and its Controlled Entities
Statements of recognised income and expense
For the year ended 30 June 2006

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
(Loss)/profit for the year	(875)	2,985	(1,612)	3,490
Total recognised income and expense for the year	(875)	2,985	(1,612)	3,490
Attributable to equity holder of the parent	(875)	2,985	(1,612)	3,490

Other movements in equity arising from transactions with owners as owners are set out in note 22.

The statements of recognised income and expenses are to be read in conjunction with the notes to the financial statements set out on pages 32 to 73.

Hydromet Corporation Limited and its Controlled Entities
Balance Sheets
As at 30 June 2006

		Consolidated		The Company	
In thousands of AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Assets					
Cash and cash equivalents	10	2,474	3,442	2,041	3,079
Trade and other receivables	11	2,505	2,736	143	459
Inventories	12	765	2,621	1	1
Income tax receivable	14	47	73	47	73
Total current assets		5,791	8,872	2,232	3,612
Receivables	11	-	-	9,940	8,196
Investments	13	-	-	6,704	6,628
Property, plant and equipment	16	8,504	7,010	346	309
Intangible assets	17	1,045	1,036	-	-
Total non-current assets		9,549	8,046	16,990	15,133
Total assets		15,340	16,918	19,222	18,745
Liabilities					
Trade and other payables	18	1,504	4,069	233	579
Interest-bearing loans and borrowings	19	2,208	754	48	35
Employee benefits	20	299	326	96	158
Provisions	21	966	502	-	-
Total current liabilities		4,977	5,651	377	772
Interest-bearing loans and borrowings	19	1,000	519	166	90
Loans from controlled entities	18	-	-	12,665	10,263
Employee benefits	20	138	99	48	52
Provisions	21	215	775	15	15
Total non-current liabilities		1,353	1,393	12,894	10,420
Total liabilities		6,330	7,044	13,271	11,192
Net assets		9,010	9,874	5,951	7,553
Equity					
Issued capital	22	64,010	64,000	64,010	64,000
Accumulated losses	22	(55,000)	(54,126)	(58,059)	(56,447)
Total equity		9,010	9,874	5,951	7,553

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 32 to 73.

Hydromet Corporation Limited and its Controlled Entities
Statements of cash flows
For the year ended 30 June 2006

		Consolidated		The Company	
In thousands of AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Cash flows from operating activities					
Cash receipts from customers		13,999	17,005	1,464	2,321
Cash paid to suppliers and employees		(14,816)	(12,889)	(3,188)	(3,239)
Cash (used in) /generated from operations		(817)	4,116	(1,724)	(918)
Interest received		101	91	88	72
Interest paid		(194)	(269)	(16)	(57)
Income taxes paid		-	(33)	-	(33)
Net cash (used in)/from operating activities	29	(910)	3,905	(1,652)	(936)
Cash flows from investing activities					
Acquisition of property, plant and equipment		(2,042)	(909)	(163)	(63)
Proceeds from sale of property, plant and equipment		50	8	41	-
Loans to controlled entities to finance working capital		-	-	(1,765)	-
Exploration, evaluation and development expenditure		-	(70)	-	-
Net cash used in investing activities		(1,992)	(971)	(1,887)	(63)
Cash flows from financing activities					
Payment of finance lease liabilities		(102)	(76)	(83)	(52)
Proceeds from issue of debentures		850	-	-	-
Issuing costs of debentures capitalised		(30)	-	-	-
Loans from controlled entities		-	-	2,411	3,422
Repayments of borrowings		-	(678)	-	-
Proceeds from borrowings		1,216	-	173	-
Net cash from/(used in) financing activities		1,934	(754)	2,501	3,370
Net (decrease)/increase in cash and cash equivalents		(968)	2,180	(1,038)	2,371
Cash and cash equivalents at 1 July		3,442	1,262	3,079	708
Cash and cash equivalents at 30 June	10	2,474	3,442	2,041	3,079

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 32 to 73.

Notes to the consolidated financial statements

1. Significant accounting policies

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1. Significant accounting policies

Hydromet Corporation Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates.

The financial report was authorised for issue by the directors on 7 September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purposes of this report are called Australian equivalents to IFRS ('AIFRSs') to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 33.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Orders, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There were no issued standards or amendments available for early adoption that will have a material impact on the financial statements.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(b) Basis of preparation (continued)

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The directors have determined that the function currency of the New Zealand operation is Australian dollars.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see next page) and impairment losses (see accounting policy j). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards – AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(e) Property plant and equipment (continued)

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases.

Assets acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy j).

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in 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

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(f) Intangible assets

(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 income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see accounting policy f(ii)) and impairment losses (see accounting policy j).

(ii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see next page) and impairment losses (see accounting policy j).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The consolidated entity's hydrometallurgical processing technology (the Hydroproc process), which has an indefinite useful life, is systematically tested for impairment at each balance sheet date. The useful life of the Hydroproc process is assessed annually.

(v) 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 j).

(g) Trade and other receivables

Trade and other receivable are stated at their amortised cost less impairment losses (see accounting policy j).

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(i) Cash and cash equivalents

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

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(j) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy h) and deferred tax assets (see accounting policy r), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy j(i)).

For indefinite useful life intangible assets, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the asset in the cash-generating units (group of units) on a pro rata basis.

Indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

(i) Calculation of recoverable amount

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. 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 risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate 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.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(j) Impairment (continued)

(iii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

(k) Share capital

(i) Dividends

Dividends are recognised as a liability in the period in which they are declared. This treatment has been applied consistently for all prior financial periods.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. This treatment has been applied consistently for all prior financial periods.

(l) Interest-bearing borrowings

Interest-bearing borrowings, including debentures, are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(m) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(m) Employee benefits (continued)

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date representing present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(iv) Share-based payment transactions

The share option programme allows consolidated entity employees to acquire shares in the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes Option Pricing model taking into account the terms and conditions upon which the options were granted. Where the share options have a fair value greater than nil, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(n) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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, when appropriate, the risk specific to the liability.

Site restoration

In accordance with the consolidated entity's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the value of the restoration provision at the end of the reporting period.

(o) Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

(p) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the processing of industrial residues is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed and based on conditions specified in the contract and/or the licence issued by the Department of Environment and Conservation. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(p) Revenue (continued)

(ii) Government grants

A research and development grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the consolidated entity will comply with the conditions attaching to it. Grants that compensate the consolidated entity for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the consolidated entity for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

(q) Expenses

(i) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest in the remaining balance of the liability.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

The treatment of net financing costs has been applied consistently for all prior financial periods.

(iii) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement 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 substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(r) Income tax (continued)

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. 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 is assumed by the head entity in the tax-consolidated group, and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

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

At 30 June 2006, no tax funding agreement has been entered into by the members of the tax-consolidated group.

(s) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(t) Goods and service tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the consolidated financial statements

1 Significant accounting policies (continued)

(u) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangibles with indefinite useful lives
The consolidated entity assesses whether the intangibles with indefinite useful lives are impaired at least annually in accordance with the accounting policy in note 17. These calculations involve an estimation of the recoverable amount of the cash-generating units to which the intangibles with indefinite useful lives are allocated.

2 Segment reporting

Business segment
The consolidated entity operates in one business segment which is the treatment of industrial residues using hydrometallurgical processing technology.

Geographical segments
The consolidated entity operates processing plants geographically in Australia and New Zealand. The Company considers the New Zealand operation is engaged in providing industrial residue treatment services under similar economic and political conditions as those experienced by its Australian operations, and without currency or special risk significantly different to those experienced in Australia.

3 Other income

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Research & development grant	73	54	73	54
Net gain on disposal of property, plant and equipment	-	5	-	-
Sale of scrap material	11	-	-	-
Foreign exchange gain	45	-	46	42
Freight income	38	27	-	-
Options fee received	-	60	-	60
Other	11	42	-	7
	178	188	119	163

Research & development grant
The consolidated entity was awarded a research and development grant from the government in 2003. During the 2006 financial year, the project was completed and the consolidated entity has fulfilled all conditions of the grant. The consolidated entity received $73,401 during the 2006 financial year (2005: $53,937) under the grant. It was recognised as income at the time it became receivable at its fair value.

Notes to the consolidated financial statements

4 Other expenses

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Bank charges	14	8	6	6
Cleaning	82	47	6	1
Donations	-	17	-	16
Listing fees	17	25	17	25
Occupation health and safty expenses	55	7	-	-
Postage, printing & stationery	46	36	31	24
General repairs and maintenance	34	72	7	10
Security	22	39	-	-
Net loss on disposal of property, plant and equipment	11	-	12	-
Telecommunications	68	62	46	41
Travelling	124	83	123	78
Foreign exchange loss	-	29	-	-
Other	96	85	59	68
	569	510	307	269

5 Personnel expenses

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Wages and salaries	2,909	2,530	778	860
Other associated personnel expenses	512	587	183	216
Contributions to defined contribution superannuation funds	379	347	156	159
Increase in liability for annual leave	273	141	120	120
Increase/(decrease) in liability for long service leave	39	(19)	(4)	(9)
	4,112	3,586	1,233	1,346

Notes to the consolidated financial statements

6 Auditors' remuneration

	Consolidated		The Company	
In AUD	**2006**	**2005**	**2006**	**2005**
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	76,910	70,137	76,910	70,137
Audit of first time AIFRS adoption	20,829	-	20,829	-
	97,739	70,137	97,739	70,137
Other regulatory audit services				
Auditors of the Company				
KPMG Australia				
Workers compensation review	1,050	1,000	1,050	1,000
Research & development review	3,500	-	3,500	-
Other services				
Taxation compliance services	13,270	26,233	13,270	26,233
IFRS training services	-	5,000	-	5,000
Overseas KPMG Firms:				
Taxation services	15,350	26,482	15,350	26,482
	33,170	58,715	33,170	58,715

7 Net financing costs

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Interest income	101	91	88	72
Financial income	101	91	88	72
Interest expense	201	291	16	57
Financial expenses	201	291	16	57
Net financing costs/(income)	100	200	(72)	(15)

Notes to the consolidated financial statements

8 Income tax expense

Recognised in the income statement

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Current tax expense				
Current year	-	719	-	52
Adjustments for prior years	(159)	-	(159)	-
	(159)	719	(159)	52
Deferred tax expense				
Origination and reversal of temporary differences	256	10	513	495
Derecognition of movement in DTA	(256)	(10)	(513)	(495)
Benefit of tax losses recognised	-	(667)	-	-
	-	(667)	-	-
Total income tax (credit)/expense in income statement attributable to continuing operations	(159)	52	(159)	52

Numerical reconciliation between tax expense and pre-tax net profit

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
(Loss)/profit before tax- continuing operations	(1,034)	3,037	(1,771)	3,542
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	(310)	911	(531)	1,063
Increase in income tax expense due to:				
Other assessable income	25	-	22	-
Effect of tax rates in foreign jurisdictions	-	52	-	52
Non-deductible expenses	29	73	19	41
Effect of temporary differences not recognised – tax losses	262	-	526	499
Decrease in income tax expense due to:				
Non-assessable income	-	(307)	(23)	(1,599)
Effect of temporary differences not recognised – other	(6)	(10)	(13)	(4)
Utilisation of carried forward tax losses	-	(667)	-	-
	-	52	-	52
(Over)/under provided in prior years	(159)	-	(159)	-
Income tax (credit)/expense on pre-tax net profit	(159)	52	(159)	52

Dividend franking account

	The Company	
In thousands of AUD	**2006**	**2005**
30% franking credits available to shareholders of Hydromet Corporation Ltd for subsequent financial years	3,217	3,217

Notes to the consolidated financial statements

9 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of $875,059 (2005: profit $2,984,508) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 295,282,577 (2005: 283,556,243), calculated as follows:

Profit attributable to ordinary shareholders

	Consolidated	
In thousands of AUD	**2006**	**2005**
(Loss)/profit attributable to ordinary shareholders	(875)	2,985

Weighted average number of ordinary shares

	Consolidated	
	2006	**2005**
Issued ordinary shares at 1 July	295,131,585	270,131,585
Effect of shares issued in December 2004	-	13,424,658
Effect of shares issued in August 2005	150,992	-
Weighted average number of ordinary shares at 30 June	295,282,577	283,556,243

Diluted earnings per share

For the financial year ended 30 June 2006, diluted earnings per share has been calculated using the same figures as basic earnings per share.

	Consolidated	
	2006	**2005**
The following securities have not been included in the calculation of diluted EPS as they are not dilutive due to the exercise price being significantly greater than average market price:		
Employees share options issued on 8 March 2004	5,315,000	5,315,000
Directors' share options issued on 19 December 2002	10,000,000	10,000,000

10 Cash and cash equivalents

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Bank balances	1,187	916	754	553
Call deposits	1,287	2,526	1,287	2,526
Cash and cash equivalents in the statement of cash flows	2,474	3,442	2,041	3,079

Notes to the consolidated financial statements

11 Trade and other receivables

In thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Current					
Trade receivables and prepayments		2,505	2,736	143	459
		2,505	2,736	143	459
Non-current					
Loans to controlled entities	31	-	-	9,940	8,196
		-	-	9,940	8,196

Loans to controlled entities shown net of impairment losses amount to $29,547,722 (2005: $29,527,542) recognised in current and previous years, and arising from the net shareholder's funds of the controlled entities that were less than the loans due to the Company.

Loans are made by the Company to wholly owned subsidiaries to fund their working capital. Loans outstanding between the Company and its controlled entities have no fixed date of repayment and are non-interest bearing.

12 Inventories

In thousands of AUD	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Raw materials and consumables	267	144	1	1
Work in progress	171	78	-	-
Finished goods	327	2,399	-	-
Carrying amount of inventories stated at net realisable value	765	2,621	1	1

13 Investments

In thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Non-current investment					
Investment in controlled entities – at cost	28	-	-	13,288	13,288
Impairment loss		-	-	(6,584)	(6,660)
		-	-	6,704	6,628

An impairment loss of $76,000 was reversed during the current financial year (2005: $1,422). The reversal is owing to the improvement in performance and net asset values of controlled entities during the year under review.

Notes to the consolidated financial statements

14 Current tax assets and liabilities

The current tax asset for the consolidated entity of $47,000 (2005: $73,000) and for the Company of $47,000 (2005: $73,000) represents the amount of income taxes recoverable in respect of current and prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority.

15 Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated		The Company	
In thousands of AUD (net)	**2006**	**2005**	**2006**	**2005**
Deductible temporary differences	714	720	83	96
Tax losses	1,872	1,609	1,872	1,609
	2,586	2,329	1,955	1,705

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from.

Notes to the consolidated financial statements

16 Property, plant and equipment

	Consolidated					The Company				
In thousands of AUD	Land and buildings	Plant and equipment	Motor vehicles and office equipment	Under construction	Total	Land and buildings	Plant and equipment	Motor vehicles and office equipment	Under construction	Total
Cost										
Balance at 1 July 2004	6,088	3,899	519	-	**10,506**	-	115	367	-	**482**
Acquisitions	33	832	144	-	**1,009**	-	19	106	-	**125**
Disposals	-	-	(16)	-	**(16)**	-	-	-	-	**-**
Balance at 30 June 2005	6,121	4,731	647	-	**11,499**	-	134	473	-	**607**
Balance at 1 July 2005	6,121	4,731	647	-	**11,499**	-	134	473	-	**607**
Acquisitions	10	505	182	1,345	**2,042**	-	23	140	-	**163**
Disposals	-	(4)	(150)	-	**(154)**	-	-	(120)	-	**(120)**
Balance at 30 June 2006	6,131	5,232	679	1,345	**13,387**	-	157	493	-	**650**
Depreciation and impairment losses										
Balance at 1 July 2004	691	3,115	315	-	**4,121**	-	16	203	-	**219**
Depreciation charged for the year	80	258	43	-	**381**	-	22	57	-	**79**
Disposals	-	-	(13)	-	**(13)**	-	-	-	-	**-**
Balance at 30 June 2005	771	3,373	345	-	**4,489**	-	38	260	-	**298**
Balance at 1 July 2005	771	3,373	345	-	**4,489**	-	38	260	-	**298**
Depreciation charged for the year	83	302	98	-	**483**	-	21	51	-	**72**
Disposals	-	-	(89)	-	**(89)**	-	-	(66)	-	**(66)**
Balance at 30 June 2006	854	3,675	354	-	**4,883**	-	59	245	-	**304**
Carrying amounts										
At 1 July 2004	5,397	784	204	-	**6,385**	-	99	164	-	**263**
At 30 June 2005	5,350	1,358	302	-	**7,010**	-	96	213	-	**309**
At 1 July 2005	5,350	1,358	302	-	**7,010**	-	96	213	-	**309**
At 30 June 2006	5,277	1,557	325	1,345	**8,504**	-	98	248	-	**346**

Notes to the consolidated financial statements

16 Property, plant and equipment (continued)

Leased motor vehicles

The consolidated entity leases motor vehicles under a number of finance lease agreements. At the end of each of the leases the consolidated entity has the option to purchase the equipment at a beneficial price. At 30 June 2006, the net carrying amount of leased motor vehicles was $253,789 (2005: $194,621) (see note 19).

Property, plant and equipment under construction

During the financial year ended 30 June 2006, the consolidated entity acquired a new battery recycling plant. The cost of acquisition was $1,124,033. The consolidated entity also commenced construction of a new building to house the new plant; costs incurred up to the balance sheet date totalled $221,298. (2005: nil).

Security

At 30 June 2006, all assets of Hydromet Corporation Limited with a carrying amount of $19,222,000 (2005: $18,745,000) are subject to registered first fixed and floating charges to secure the debentures issued by the consolidated entity and second fixed and floating charges to secure a banking facility (see note 19).

17 Intangible assets

	Consolidated			The Company		
In thousands of AUD	**Hydroproc Process**	**Exploration and evaluation**	**Total**	**Hydroproc Process**	**Exploration and evaluation**	**Total**
Cost						
Balance at 1 July 2004	2,217	302	**2,519**	-	-	-
Other acquisitions	-	71	**71**	-	-	-
Balance at 30 June 2005	2,217	373	**2,590**	-	-	-
Balance at 1 July 2005	2,217	373	**2,590**	-	-	-
Other acquisitions	-	9	**9**	-	-	-
Balance at 30 June 2006	2,217	382	**2,599**	-	-	-
Amortisation and impairment losses						
Balance at 1 July 2004	1,554	-	**1,554**	-	-	-
Balance at 30 June 2005	1,554	-	**1,554**	-	-	-
				-	-	-
Balance at 1 July 2005	1,554	-	**1,554**	-	-	-
Balance at 30 June 2006	1,554	-	**1,554**	-	-	-
Carrying amounts						
At 1 July 2004	663	302	**965**	-	-	-
At 30 June 2005	663	373	**1,036**	-	-	-
At 1 July 2005	663	373	**1,036**	-	-	-
At 30 June 2006	663	382	**1,045**	-	-	-

Notes to the consolidated financial statements

17 Intangibles (continued)

Hydroproc process

The Hydroproc process is the technology applied by the consolidated entity in its operations. The recoverable amount of the Hydroproc process cash-generating unit is based on value in use calculations. These calculations use cash flow projections based on the following assumptions:

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

A pre-tax discount rate of fifteen percent has been used in discounting the projected cash flows. As the calculated recoverable amount exceeds the carrying amount of the Hydroproc process, no impairment losses were incurred during the financial year.

Exploration and evaluation assets

The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

18 Trade and other payables

		Consolidated		The Company	
In thousands of AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Current liabilities					
Trade payables and accrued expenses		1,504	4,069	233	579
		1,504	4,069	233	579
Non-current liabilities					
Loans from controlled entities	31	-	-	12,665	10,263
		-	-	12,665	10,263

19 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings.

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Current liabilities				
Secured bank loans	1,043	-	-	-
Current portion of finance lease liabilities	66	54	48	35
Debentures	1,099	700	-	-
	2,208	754	48	35
Non-current liabilities				
Finance lease liabilities	186	126	166	90
Debentures	814	393	-	-
	1,000	519	166	90

Notes to the consolidated financial statements
19 Interest-bearing loans and borrowings (continued)

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Financing facilities				
Import loan	1,200	-	-	-
Letter of credit	1,000	-	-	-
Foreign exchange contract	1,000	-	-	-
	3,200	-	-	-
Facilities utilised at reporting date				
Import loan	1,043	-	-	-
Letter of credit	-	-	-	-
Foreign exchange contract	-	-	-	-
	1,043	-	-	-
Facilities not utilised at reporting date				
Import loan	157	-	-	-
Letter of credit	1,000	-	-	-
Foreign exchange contract	1,000	-	-	-
	2,157	-	-	-

Financing arrangements

Import loan

The import loan is denominated in Australian dollars. The import loan amount in current liabilities comprises the portion of the consolidated entity's bank loan payable within one year. The import loan bears interest at 9.52% per annum (2005: nil).

Letter of credit

The letter of credit facility is a facility available to be utilised at any time. Total amount of the facility is $1,000,000. No utilisations against this facility had been made as at 30 June 2006.

Foreign exchange contract

The foreign exchange contract facility is available to be utilised at any time. Total amount of the facility is $1,000,000. No contracts have been entered into by the Company as at 30 June 2006.

The import loan, letter of credit and foreign exchange contract facilities are secured by 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 and Minmet Operations Pty Limited.

Notes to the consolidated financial statements

19 Interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities of the consolidated entity are payable as follows:

	Consolidated					
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
In thousands of AUD	**2006**	**2006**	**2006**	**2005**	**2005**	**2005**
Less than one year	83	17	66	67	13	54
Between one and five years	202	16	186	143	17	126
	285	33	252	210	30	180
	The Company					
Less than one year	63	15	48	43	8	35
Between one and five years	180	14	166	101	11	90
	243	29	214	144	19	125

The consolidated entity's lease liabilities are secured by the leased assets of $253,789 (2005: $194,621), as in the event of default, the leased assets revert to the lessor.

The consolidated entity motor vehicle finance leases expire from one to four years. At the end of the lease term, the consolidated entity has the option to purchase the motor vehicles at 0 to 50 per cent of market value, a price deemed to be a fair purchase option.

Debentures

The consolidated entity has issued the following debentures:

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Proceeds from issues of 1,950,000 debentures (2005: 1,100,000)	1,950	1,100	-	-
Transaction costs capitalised	(37)	(7)	-	-
Carrying amount of liability at 30 June	1,913	1,093	-	-

The face value of each debenture is $1. The debentures have terms ranging from one to three years from the date of issue, and attract effective interest rates ranging from 12% to 14.5% per annum, to be paid in arrears, semi-annually on 31 March and 30 September, respectively. The debenture holders have a fixed and floating charge over the assets of the Company.

The Company has issued no debentures.

Notes to the consolidated financial statements

20 Employee benefits

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Current				
Salaries and wages accrued	30	27	9	10
Liability for annual leave	269	299	87	148
Total employee benefits	299	326	96	158
Non-current				
Liability for long service leave	138	99	48	52

Defined contribution superannuation funds

The consolidated entity contributes 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.

The amount recognised as an expense was $378,891 for the financial year ended 30 June 2006 (2005: $347,000).

Share based payments

The Company has an Employee Share Option Plan (ESOP) 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 consolidated entity at the time of grant. Share options are issued in the name of the participating employee.

On 8 March 2004, the Company provided 30 employees with 5,315,000 options over ordinary shares for no consideration. None of these options were issued to the Directors. Each option is convertible to one ordinary share at the exercise price of $0.08 per share. The options could not be exercised before 16 February 2005 and expire on 16 February 2007.

Share options issued to employees pursuant to the ESOP are recorded in contributed equity at fair value and allocated to each reporting period proportionately over the period from grant date to vesting date. The options have been valued at a fair value of $Nil at the date of grant.

On 19 December 2002 the company issued a total of 10,000,000 ordinary share options to directors pursuant to approval of shareholders at the annual general meeting held on 29 November 2002. These options have an exercise price of 8 cents and expire on 31 March 2007. There are differing vesting dates in four parcels of 2,500,000 vesting annually for four years commencing on 31 December 2003.

Notes to the consolidated financial statements

20 Employee benefits (continued)

Share options issued to directors are recorded in contributed equity at fair value evenly over the period from grant date to vesting date. The options were independently valued at a fair value of $Nil at the date of grant using the Black-Scholes Option Pricing model. Estimated volatility approximates historic volatility. Each option entitles the holder to purchase one ordinary share in the Company.

No options have been granted or exercised during the financial year.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the ordinary shares issued when the options are exercised.

21 Provisions

In thousands of AUD	**Site restoration**	**Waste disposal**	**Total**
Consolidated			
Current			
Balance at 1 July 2005	-	502	502
Provisions used during the year	-	(96)	(96)
Transfer of provisions from non- current	560	-	560
Balance at 30 June 2006	560	406	966
Consolidated			
Non current			
Balance at 1 July 2005	775	-	775
Transfer of provisions to current	(560)	-	(560)
Balance at 30 June 2006	215	-	215
The Company			
Current			
Balance at 1 July 2005	-	-	-
Balance at 30 June 2006	-	-	-
The Company			
Non current			
Balance at 1 July 2005	15	-	15
Balance at 30 June 2006	15	-	15

Site restoration

A provision of $560,000 was made in previous financial year in respect of environmental clean-up cost of a disposal pond located at the site of a controlled entity. The consolidated entity has no legal obligation to clean-up the pond and restore the site to its original state. 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.

The consolidated entity has certain operations located at clients' sites to provide on-site services to these clients. Upon termination of the services, the sites are to be returned to the clients in original condition. There are no definite terms of these on-site services and occupancies of the clients' sites. The services could be terminated by clients by giving notice to the consolidated entity.

Notes to the consolidated financial statements

21 Provisions (continued)

Site restoration (continued)

A provision of $215,000 was made on 1 July 2004 as transition to AIFRSs (see note 33) in respect of the consolidated entity's obligation to these site restorations. Because of no definite terms of the liability, the main uncertainty in estimating the provision is the costs that will be incurred. In particular, the consolidated entity has assumed that the sites will be restored using technology and materials currently available. As the timing of when the expenditure will be required to be incurred is uncertain, and could be within 12 months, the provision has not been discounted.

Waste disposal

Hazardous by-products are produced during the manufacturing processes carried on by HydroMet Operations (Southern) Limited, MinMet Operations Pty Limited and HydroMet Operations Limited. The controlled entities 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.

22 Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent.

In thousands of AUD	Share capital	Accumulated losses	Total equity
Consolidated			
Balance at 1 July 2004	63,200	(57,109)	6,091
Total recognised income and expense	-	2,985	2,985
Contributions of equity	800	-	800
Adjustment for rounding	-	(2)	(2)
Balance at 30 June 2005	64,000	(54,126)	9,874
Balance at 1 July 2005	64,000	(54,126)	9,874
Total recognised income and expense	-	(875)	(875)
Contributions of equity	10	-	10
Adjustment for rounding	-	1	1
Balance at 30 June 2006	64,010	(55,000)	9,010
The Company			
Balance at 1 July 2004	63,200	(59,937)	3,263
Total recognised income and expense	-	3,490	3,490
Contributions of equity	800	-	800
Balance at 30 June 2005	64,000	(56,447)	7,553
Balance at 1 July 2005	64,000	(56,447)	7,553
Total recognised income and expense	-	(1,612)	(1,612)
Contributions of equity	10	-	10
Balance at 30 June 2006	64,010	(58,059)	5,951

Notes to the consolidated financial statements

22 Capital and reserves (continued)

Share capital

The consolidated entity recorded the following amounts within shareholders' equity as a result of the issuance of ordinary shares.

	Share Capital	
In thousands of AUD	**2006**	**2005**
Issuance of ordinary shares	10	1,000

	Ordinary Shares	
In thousands of shares	**2006**	**2005**
On issue at 1 July	295,132	270,132
Issued for releasing and cancelling mining mortgage	166	0
Issued for cash	-	25,000
On issue at 30 June – fully paid	295,298	295,132

The Company has allotted and issued 166,000 ordinary fully paid shares (at $0.06024 per share) to Royalty Resources Limited as consideration for releasing and cancelling the mining mortgage on the Stanton Prospect.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

23 Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's and the consolidated entity's business.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

The consolidated entity adopts a policy of ensuring that its exposure on borrowings is on a fixed rate basis.

Notes to the consolidated financial statements

23 Financial instruments (continued)

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

In thousand of AUD	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2 to 5 years
Consolidated							
2006							
Cash and cash equivalents	10	5.75%	2,474	2,474	-	-	-
Lease liabilities*	19	8.3%	252	35	31	47	139
Secured bank loan	19	9.52%	1,043	-	1,043	-	-
Debentures*	19	13.25%	1,913	392	707	814	-
2005							
Cash and cash equivalents	10	5.18%	3,442	3,442	-	-	-
Lease liabilities*	19	8.4%	180	31	23	40	86
Debentures*	19	12%	1,093	-	700	393	-
The Company							
2006							
Cash and cash equivalents	10	5.75%	2,041	2,041	-	-	-
Lease liabilities*	19	8.3%	214	25	23	41	125
2005							
Cash and cash equivalents	10	5.18%	3,079	3,079	-	-	-
Lease liabilities*	19	8.4%	125	22	13	23	67

* These assets / liabilities bear interest at a fixed rate.

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily US dollars and New Zealand dollars.

The consolidated entity does not hedge its trade receivables and trade payables denominated in a foreign currency.

The Company maintains a short term US dollar bank deposit.

Fair values

The fair values of financial assets and liabilities shown in the balance sheets are approximately their carrying amounts.

Notes to the consolidated financial statements

23 Financial instruments (continued)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements.

Trade and other receivables / payables
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Interest rates used for determining fair value
The entity uses the government yield curve as of 30 June 2006 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2006	2005
Loans and borrowings	9.52% - 14.50%	12.29% - 13.02%
Leases	6.65% - 12.91%	6.59% - 12.9%

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Less than one year	12	31	4	4
Between one and five years	4	16	2	6
	16	47	6	10

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

During the financial year ended 30 June 2006, $47,000 was recognised as an expense in the income statement in respect of operating leases (2005: $6,538).

25 Capital and other commitments

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Capital expenditure commitments				
Building				
Contracted but not provided for and payable:				
Within one year	560	-	-	-

Notes to the consolidated financial statements

26 Contingencies

Contingent liabilities not considered remote

Litigation

In October 2005, a party brought a Supreme Court action against a wholly-owned subsidiary. The subsidiary was named the Twelfth Third Party along with another twelve defendants. The event happened in 1987 and involved share trading transactions between parties. The subsidiary was alleged, along with others, to have knowingly participated in and assisted in breaches of fiduciary duty by the directors of its then holding company, and is allegedly liable to pay unspecified equitable compensation, and is allegedly jointly and severally liable to pay damages to that holding company.

Hydromet Corporation Limited acquired the subsidiary in August 1995 and was not involved in or had knowledge of the subject transactions. The company has engaged legal assistance to prepare the defence while liability is not admitted. The hearing is scheduled for December 2006. In the opinion of the directors it is not practicable to estimate the potential financial effect of a contingent liability at this stage and disclosure of any further information would seriously prejudice the interest of the entity.

Royalty payment

Under the terms of a royalty agreement entered into by a subsidiary, the consolidated entity has an obligation to pay a total of $600,000 to two parties if a decision to mine is made on an exploration and evaluation asset. A further royalty payment of 1% of the net smelter return generated from the sale of any mineral produced from the assets is payable to a party for a period of 10 years from the date on which commercial mining commences.

Contingent liabilities considered remote

Deed of cross guarantee

Under the terms of a deed of cross guarantee, described in note 27, the Company has guarantee 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 Corporation Act 2001. If a winding up occurs under 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 been given similar guarantees in the event that the Company is wound up.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Bank guarantee

	Consolidated		**The Company**	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
The Company has guaranteed the bank facilities of certain controlled entities	-	-	3,200	-

Notes to the consolidated financial statements

27 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;
- Envirometh Operations Pty Limited; and
- Hydromet Corporation Debenture Nominees Pty Limited

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2006 is set out below.

	Consolidated	
In thousands of AUD	**2006**	**2005**
Summarised income statement and retained profits		
Profit before tax	(1,124)	210
Income tax credit/(expense)	159	(51)
(Loss)/profit after tax	(965)	159
Accumulated losses at beginning of year	(57,694)	(57,853)
Accumulated losses at end of year	(58,659)	(57,694)

Notes to the consolidated financial statements

27 Deed of cross guarantee (continued)

	Consolidated	
In thousands of AUD	**2006**	**2005**
Balance sheet		
Assets		
Cash and cash equivalents	2,367	3,385
Trade and other receivables	1,934	1,609
Inventories	231	92
Total current assets	4,532	5,086
Investments	6,738	6,663
Property, plant and equipment	6,221	4,713
Intangibles	663	663
Total non-current assets	13,622	12,039
Total assets	18,154	17,125
Liabilities		
Trade and other payables	1,246	1,600
Interest-bearing loans and borrowings	2,203	49
Employee benefits	198	250
Provisions	127	223
Total current liabilities	3,774	2,122
Interest bearing liabilities	981	1,194
Provisions	215	215
Employee benefits	98	85
Other payables	7,735	7,203
Total non-current liabilities	9,029	8,697
Total liabilities	12,803	10,819
Net assets	5,351	6,306
Issued capital	64,010	64,000
Accumulated losses	(58,659)	(57,694)
Total equity	5,351	6,306

Notes to the consolidated financial statements

28 Consolidated entities

	Country of incorporation	Consolidated entity interest 2006 %	Consolidated entity interest 2005 %
Parent entity			
HydroMet Corporation Limited			
Subsidiaries			
■ 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
■ 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
■ HydroMet Operations Limited	Australia	100	100
Subsidiary of which is:			
- Enviromet Operations Pty Limited	Australia	100	100
■ MinMet Unit Trust	Australia	100	100
■ Hydromet Corporation Debenture Nominees Pty Limited	Australia	100	100

29 Reconciliation of cash flows from operating activities

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Cash flows from operating activities				
(Loss)/profit for the period	(875)	2,985	(1,612)	3,490
Adjustments for:				
Depreciation	483	381	72	79
Retirement of assets	5	-	-	-
Write back provision for investment		-	(75)	(2,934)
Write back provision for loans to controlled entities	-	-	20	(2,177)
Loss/(profit) on sale of property, plant and equipment	11	(5)	12	-
Operating (loss)/profit before changes in working capital and provisions	(376)	3,361	(1,583)	(1,542)
Decrease in trade and other receivables	257	506	342	487
(Increase)/decrease in inventories	1,856	(2,420)	-	3
(Decrease)/increase in trade and other payables	(2,591)	2,398	(356)	16
(Decrease)/Increase in provisions and employee benefits	(56)	60	(55)	100
Net cash (used in)/from operating activities	(910)	3,905	(1,652)	(936)

Notes to the consolidated financial statements

30 Related parties

The Company has no key management personnel who are not directors of the Company. The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors
Mr. Timothy R Allen (Deputy Chairperson)
Mr Stephen H Kwan
Mr Stephen B Wolfe
Executive directors
Dr Lakshman D Jayaweera (Chairperson)
Mr Gregory W Wrightson (Managing Director)
Mr Pipvide S Tang (Finance Director)

Key management personnel compensation
The key management personnel compensation included in 'personnel expenses' (see note 5) are as follows:

	Consolidated		The Company	
In thousands of AUD	**2006**	**2005**	**2006**	**2005**
Short-term employee benefits	746	660	746	660
Post-employment benefits	55	55	55	55
	801	715	801	715

Individual directors and executives compensation disclosures
Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' report on pages 8 to 14.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Other key management personnel transactions with the Company or its controlled entities
A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

In thousands of AUD			Consolidated		The Company	
Key management personnel	**Transaction**	**Note**	**2006**	**2005**	**2006**	**2005**
Mr PS Tang	Secretarial / consulting	*(i)*	-	20	-	20
Mr TR Allen	Consulting	*(ii)*	38	7	38	7
Mr SB Wolfe	Inventory purchase	*(iii)*	27	112	-	-
Mr SB Wolfe	Consulting fees	*(iv)*	-	47	-	-

Notes to the consolidated financial statements

30 Related parties (continued)

Other key management personnel transactions with the Company or its controlled entities (continued)

(i) The Company used the secretarial and consulting services of a related entity to Mr PS Tang to provide company accounting and secretarial services, advice over the sale of the Stanton Prospect and tax consolidation matters. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Company used the consulting services of a related entity to Mr TR Allen to provide advice over a specific project feasibility study and the issue of debentures. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(iii) The Company purchased various chemicals from a related entity to Mr SB Wolfe. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms.

(iv) The Company used the consulting services of a related entity to Mr SB Wolfe to prepare a feasibility study, subsequent negotiation to acquire a specific asset and an overseas visit to a potential joint venture partner of a specific project.

Amounts receivable from and payable to key management personnel at reporting date arising from these transactions were as follows:

		Consolidated		The Company	
In thousands of AUD	**Note**	**2006**	**2005**	**2006**	**2005**
Current payables					
Key management personnel					
Trade creditors		18	42	18	-

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Hydromet Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006	Held at 1 July 2004	Held at 30 June 2005	Vested during the year	Vested and exercisable at 30 June 2005
Directors								
Mr TR Allen	2,000,00	2,000,00	500,000	1,500,000	2,000,00	2,000,00	500,000	1,000,000
Mr SH Kwan	2,000,00	2,000,00	500,000	1,500,000	2,000,00	2,000,00	500,000	1,000,000
Dr LD Jayaweera	2,000,00	2,000,00	500,000	1,500,000	2,000,00	2,000,00	500,000	1,000,000
Mr GW Wrightson	2,000,00	2,000,00	500,000	1,500,000	2,000,00	2,000,00	500,000	1,000,000
Mr PS Tang	2,000,00	2,000,00	500,000	1,500,000	2,000,00	2,000,00	500,000	1,000,000

No options held by key management personnel are vested but not exercisable at 30 June 2005 or 2006. No options were held by key management person related parties.

Notes to the consolidated financial statements

30 Related parties (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Hydromet Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Purchases	Held at 30 June 2006	Held at 1 July 2004	Purchases	Held at 30 June 2005
Directors						
Mr TR Allen	2,300,000	-	2,300,000	2,300,000	-	2,300,000
Mr SH Kwan	46,000	-	46,000	46,000	-	46,000
Mr SB Wolfe	25,000,000	-	25,000,000	-	25,000,000	25,000,000
Dr LD Jayaweera	18,091,485	23,452,910	41,544,395	13,608,250	4,483,235	18,091,485
Mr GW Wrightson	578,300	-	578,300	578,300	-	578,300
Mr PS Tang	80,000	779,000	859,000	80,000	-	80,000

No shares were granted to key management personnel during the reporting period as compensation in 2005 or 2006. No shares were held by key management person related parties.

31 Non-key management personnel disclosures

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 28) and with its key management personnel (refer to disclosures for key management personnel on note 30).

Other related party transactions

Subsidiaries

Loans are made by the Company to wholly owned subsidiaries to fund their working capital. Loans outstanding between the Company and its controlled entities have no fixed date of repayment and are non-interest bearing.

For the financial year ended 30 June 2006, the following loans have been recognised as due/payable from/to subsidiaries:

In thousands of AUD

Subsidiary	**Receivable**
Hydromet Operations Limited	2,362
Hydromet Operations (Southern) Limited	7,027
Hydromet Operations (Tasmania) Limited	551
	9,940
	Payable
Minmet Trust	8,719
Mineral Estates Limited	2,592
Hydromet Corporation Debenture Nominees Pty Limited	1,354
	12,665

32 Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in the future financial years.

Notes to the consolidated financial statements

33 Explanation of transition to AIFRSs

Reconciliation of equity

		Consolidated							
		Previous GAAP	Correction of previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Correction of previous GAAP	Effect of transition to AIFRSs	AIFRSs
In thousands of AUD	Note		1 July 2004				30 June 2005		
Assets									
Cash and cash equivalents		1,262	-	-	1,262	3,442	-	-	3,442
Trade and other receivables		3,315	-	-	3,315	2,809	-	-	2,809
Inventories		200	-	-	200	2,621	-	-	2,621
Total current assets		4,777	-	-	4,777	8,872	-	-	8,872
Property, plant & equipment	b,c,d,f	8,364	-	(1,979)	6,385	8,182	-	(1,172)	7,010
Intangible assets	e	965	-	-	965	792	-	244	1,036
Total non-current assets		9,329	-	(1,979)	7,350	8,974	-	(928)	8,046
Total assets		14,106	-	(1,979)	12,127	17,846	-	(928)	16,918
Liabilities									
Trade and other payables		1,698	-	-	1,698	4,069	-	-	4,069
Interest bearing loans and borrowings		73	-	-	73	754	-	-	754
Employee benefits	i	368	(183)	-	185	442	(116)	-	326
Provisions		535	-	-	535	502	-	-	502
Total current liabilities		2,674	(183)	-	2,491	5,767	(116)	-	5,651
Interest bearing loans and borrowings	h	2,681	-	(29)	2,652	526	-	(7)	519
Employee benefits		118	-	-	118	99	-	-	99
Provisions	g	560	-	215	775	560	-	215	775
Total non-current liabilities		3,359	-	186	3,545	1,185	-	208	1,393
Total liabilities		6,033	(183)	186	6,036	6,952	(116)	208	7,044
Net assets		8,073	183	(2,165)	6,091	10,894	116	(1,136)	9,874
Equity									
Issued capital		63,200	-	-	63,200	64,000	-	-	64,000
Reserves		506	-	(506)	-	506	-	(506)	-
Retained earnings	l	(55,633)	183	(1,659)	(57,109)	(53,612)	116	(630)	(54,126)
Total equity attributable to equity holders of the parent		8,073	183	(2,165)	6,091	10,894	116	(1,136)	9,874

Notes to the consolidated financial statements

33 Explanation of transition to AIFRSs

Reconciliation of equity (continued)

		The Company							
		Previous GAAP	Correction of previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Correction of previous GAAP	Effect of transition to AIFRSs	AIFRSs
In thousands of AUD	Note		1 July 2004				30 June 2005		
Assets									
Cash and cash equivalents		708	-	-	708	3,079	-	-	3,079
Trade and other receivables		1,020	-	-	1020	532	-	-	532
Inventories		4	-	-	4	1	-	-	1
Total current assets		1,732	-	-	1,732	3,612	-	-	3,612
Loans to controlled entities	j	7,023	-	(1,799)	5,224	8,794	-	(598)	8,196
Other investments	j	3,525	-	169	3,694	6,458	-	170	6,628
Property, plant & equipment	b,c,d,f	263	-	-	263	309	-	-	309
Total non-current assets		10,811	-	(1,630)	9,181	15,561	-	(428)	15,133
Total assets		12,543	-	(1,630)	10,913	19,173	-	(428)	18,745
Liabilities									
Trade and other payables		573	-	-	573	579	-	-	579
Interest bearing loans and borrowings		60	-	-	60	35	-	-	35
Employee benefits	i	165	(127)	-	38	218	(60)	-	158
Total current liabilities		798	(127)	-	671	832	(60)	-	772
Interest bearing loans and borrowings		855	-	-	855	90	-	-	90
Loans from controlled entities		6,048	-	-	6,048	10,263	-	-	10,263
Employee benefits		61	-	-	61	52	-	-	52
Provisions	g	-	-	15	15	-	-	15	15
Total non-current liabilities		6,964	-	15	6,979	10,405	-	15	10,420
Total liabilities		7,762	(127)	15	7,650	11,237	(60)	15	11,192
Net assets		4,781	127	(1,645)	3,263	7,936	60	(443)	7,553
Equity									
Issued capital		63,200	-	-	63,200	64,000	-	-	64,000
Reserves		150	-	(150)	-	150	-	(150)	-
Retained earnings	l	(58,569)	127	(1,495)	(59,937)	(56,214)	60	(293)	(56,447)
Total equity attributable to equity holders of the parent		4,781	127	(1,645)	3,263	7,936	60	(443)	7,553

Notes to the consolidated financial statements

33 Explanation of transition to AIFRSs (continued)

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note (k).

(a) As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are subject to the other requirements of AASB 1, as discussed below.

(b) Consistent with AIFRSs, the consolidated entity has elected to measure land at its fair value at the date of transition to AIFRSs and use that fair value as its deemed cost. Under previous GAAP, land was measured at cost.

The effect in the consolidated entity is to increase *Property, plant and equipment* at 1 July 2004 and 30 June 2005 by $991,580, resulting in land having a deemed cost value of $2,786,160. There is no effect on the income statement for the six months ended 31 December 2005 or for the year ended 30 June 2006.

(c) Under AIFRSs, any asset revaluation reserve balance relating to land and buildings was derecognised at transition date and adjusted against retained earnings. For the consolidated entity, at 1 July 2004 and 30 June 2005, an amount of $355,688 was reclassified from the asset revaluation reserve to retained earnings. An amount of $150,000 was also classified from a general reserve to retained earnings.

The amount represents the balance on the revaluation reserve at 1 July 2004 in respect of assets that are measured on the basis of deemed cost under AIFRS. As this adjustment has not changed the carrying value of property, plant and equipment, there was no impact on depreciation for the year ended 30 June 2005.

(d) Under AIFRSs, the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as other income. For the consolidated entity an amount of $2,827 was reclassified from other income to other expenses for the year ended 30 June 2005.

(e) From 1 July 2004, the Hydroproc Process, an acquired intangible asset with a carrying value of $2,217,323, is no longer amortised under AIFRS, but is tested annually for impairment. As a result of this change, the amortisation charge of the Hydroproc Process was written back by $244,644 for the year ended 30 June 2005.

The Hydroproc Process intangible asset has been assessed as having an indefinite useful life on the basis that its primary use is in the treatment of industrial waste residues, which is to be undertaken by the consolidated entity for an indefinite period.

Notes to the consolidated financial statements

33 Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity (continued)

(f) Under previous GAAP, the recoverable amount of plant and equipment was assessed on an undiscounted basis, using higher long-term growth assumptions than are permissible under AIFRSs. Under AIFRS, an impairment loss of $2,970,929 existed at the date of transition.

The recoverable amount of impaired plant and equipment has been assessed as nil based upon value-in-use and using a pre-tax discount rate reflecting current market assessments and accordingly an impairment loss has been recognised.

The effect on the consolidated entity is to decrease *Retained earnings* and *Property, plant and equipment* by $2,970,929 at 1 July 2004 and by $2,163,875 at 30 June 2005; and to reduce the *Depreciation charge* by $807,054 for the year ended 30 June 2005.

(g) An obligation exists to restore certain customers' sites for the effect of the consolidated entity's operations. Under previous GAAP, the cost of rectification was recognised as an expense when incurred. In accordance with AIFRSs, a provision for refurbishment costs of $215,000 was recognised on transition date in the consolidated entity at the time of the obligating event.

As the timing of when the expenditure will be required to be incurred is uncertain, and could be within 12 months, the provision has not been discounted. The effect on the consolidated entity is to decrease the *Opening balance retained earnings* account by $215,000 at 1 July 2004 and 30 June 2005.

(h) Under AIFRSs, debt establishment costs expensed were recalculated based on an effective interest rate method and recognised as part of the liability. The effect is a decrease in interest bearing liabilities of $29,162 and a decrease in retained losses of $29,612 at 1 July 2004, and an increase in interest bearing liabilities of $22,291 and an increase in interest expenses of $22,291 at 30 June 2005.

(i) In the financial report for the year ended 30 June 2004 and 30 June 2005 prepared under previous GAAP, sick leave entitlements of some employees were incorrectly recognised in the accounts.

The effect of the correction of this error in the company is to reduce the personnel expenses by $127,401 and reduce accumulated losses by $127,401 for the financial year ended 30 June 2004 and increase the personnel expenses by $67,432 and increase the accumulated losses by $67,432 for the financial year ended 30 June 2005.

The effect of the correction in the consolidated entity is to reduce the personnel expenses by $182,609 and reduce accumulated losses by $182,609 for the financial year ended 30 June 2004 and increase the personnel expenses by $66,371and increase the accumulated losses by $66,371 for the financial year ended 30 June 2005.

(j) Adjustments have been made by the company for loans from and investment in controlled entities resulting from the transition to AIFRSs and the subsequent impact on entities within the consolidated group.

The effect on the company is to decrease loans to controlled entities by $1,798,776 and increase investment in controlled entities by $168,983 at 1 July 2004. At 30 June 2005, the effect is to decrease loan to controlled entities by $598,453 and increase investment in controlled entities by $170,404. The impact on the income statement at 30 June 2005 is to increase the Write back of intercompany loans and investments by $1,201,745.

Notes to the consolidated financial statements

33 Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity (continued)

(k) The above changes increased (decreased) the deferred tax asset as follows:

		Consolidated		The Company	
In thousands of AUD	**Note**	**1 July 2004**	**30 June 2005**	**1 July 2004**	**30 June 2005**
Property, plant and equipment	f	890	649	-	-
Refurbishment provision	g	65	65	5	5
Land valuation	b	(297)	(297)	-	-
Net deferred tax asset not recognised		658	417	5	5

Under previous GAAP, the consolidated entity did not recognise a deferred tax asset for the carry forward of unused tax losses. In accordance with AIFRSs, such losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The potential future income tax benefit arising from tax losses and temporary differences has not been recognised as an asset on the basis that the recovery of tax losses is not probable.

(l) The effect of the above adjustments on retained earnings is as follows:

		Consolidated		The Company	
In thousands of AUD	**Note**	**1 July 2004**	**30 June 2005**	**1 July 2004**	**30 June 2005**
Property, plant and equipment	f	2,971	2,164	-	-
Refurbishment provision	g	215	215	15	15
Debt establishment cost	h	(29)	(7)	-	-
Reclassification of reserve	c	(506)	(506)	(150)	(150)
Revaluation of land	b	(992)	(992)	-	-
Amortisation of Hydroproc Process	e	-	(244)	-	-
Write back provision for loans to and investment in controlled entities	j	-	-	1,630	428
Effect of transition to AIFRSs		1,659	630	1,495	293
Correction of previous GAAP					
Provision for sick leave	i	(183)	(116)	(127)	(60)
Total adjustment to equity attributable to equity holders of the parent		1,476	514	1,368	233

(m) Explanation of material adjustments to the cash flow statement for 2005
There were no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

Notes to the consolidated financial statements

33 Explanation of transition to AIFRSs (continued)

Reconciliation of profit for 2005

In thousands of AUD	Note	Consolidated Previous GAAP	Consolidated Correction of previous GAAP	Consolidated Effect of transition to AIFRSs	Consolidated AIFRS	The Company Previous GAAP	The Company Correction of previous GAAP	The Company Effect of transition to AIFRSs	The Company AIFRS
Revenue from sales of goods		8,951	-	-	8,951	-	-	-	-
Revenue from rendering of services		7,274	-	-	7,274	1,641	-	-	1,641
Total revenue		16,225	-	-	16,225	1,641	-	-	1,641
Other income	d	191	-	(3)	188	163	-	-	163
Changes in inventories of finishing goods & WIP		2,427	-	-	2,427	-	-	-	-
Raw materials and consumables used		(5,324)	-	-	(5,324)	(187)	-	-	(187)
Direct production costs		(5,154)	-	-	(5,154)	(1,108)	-	-	(1,108)
Employee expenses	i	(3,520)	(66)	-	(3,586)	(1,279)	(67)	-	(1,346)
Depreciation and amortisation expenses	e,f	(1,433)	-	1,052	(381)	(79)	-	-	(79)
Write back of intercompany loans and investments	j	-	-	-	-	3,909	-	1,202	5,111
Consultants and professional services		(348)	-	-	(348)	(294)	-	-	(294)
Insurance expenses		(235)	-	-	(235)	(84)	-	-	(84)
Property rental and site costs		(65)	-	-	(65)	(21)	-	-	(21)
Other expenses	d	(513)	-	3	(510)	(269)	-	-	(269)
Results from operating activities		2,251	(66)	1,052	3,237	2,392	(67)	1,202	3,527
Financial income		91	-	-	91	72	-	-	72
Financial expenses	h	(269)	-	(22)	(291)	(57)	-	-	(57)
(Loss)/profit before tax		2,073	(66)	1,030	3,037	2,407	(67)	1,202	3,542
Income tax expense		(52)	-	-	(52)	(52)	-	-	(52)
Profit for the period Attributable to Equity holders of the parent		2,021	(66)	1,030	2,985	2,355	(67)	1,202	3,490
Basic and diluted earnings per share from continuing operations (AUD)		0.713 (cents)			1.052 (cents)				

Directors' declaration

1 In the opinion of the Directors of Hydromet Corporation Limited ('the Company'):

(a) the financial statements and notes and remuneration disclosures that are contained in sections 4.3.1, 4.3.2 and 4.3.3 of the Remuneration report in the Directors' report, set out on pages 28 to 73, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the remuneration disclosures that are contained in sections 4.3.1, 4.3.2 and 4.3.3 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the Company and the controlled entities identified in Note 27 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by section 295A of the Corporations Act from the managing director and finance director for the financial year ended 30 June 2006.

Dated at Wollongong this 7th day of September 2006.

Signed in accordance with a resolution of the directors:

Gregory Wrightson
Director

Independent audit report to the members of Hydromet Corporation Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes to the financial statements notes 1 to 33, and the directors' declaration set out on pages 28 to 74 for both Hydromet Corporation Limited (the 'Company') and Hydromet Corporation Limited and its controlled entities (the 'consolidated entity'), for the financial year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosure") required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration report" in sections 4.3.1, 4.3.2 and 4.3.3 of the directors' report and not in the financial report.

The Remuneration report also contains information in sections 4.3.4, 4.3.5, 4.3.6 and 4.3.7 not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards.* The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the remuneration disclosures comply with AASB 124.

The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

- While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

1. In our opinion, the financial report of Hydromet Corporation Limited and its controlled entities is in accordance with:

   (a) 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 2006 and of their performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) other mandatory financial reporting requirements in Australia; and

2. The remuneration disclosures that are contained in sections 4.3.1, 4.3.2 and 4.3.3 of Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG

Warwick Shanks
Partner

Signed in Wollongong this 7th day of September 2006.

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the Directors of Hydromet Corporation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Warwick Shanks
Partner

Signed in Wollongong this 7th day of September 2006.

ASX additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 31 August 2006)

Substantial shareholders
The number of shares held by the substantial shareholders and their associates are set out below:

Shareholder	Number
Chemmet Pty Limited	41,544,395
Tennant (2000) Pty Limited	25,000,000
National Nominees Limited	19,242,943

Voting rights
Ordinary shares
Refer to Note 22 in the financial statement.

Options
Refer to Note 20 in the financial statement.

Distribution of equity security holders

	Number of equity security holders		
Category	**Ordinary shares**	**Directors' Options**	**Employees' options**
1 - 1,000	306	-	-
1,001 - 5,000	355	-	-
5,001 - 10,000	178	-	-
10,001 - 100,000	893	-	11
100,001 and over	345	5	19
	2,077	5	30

The number of shareholders holding less than a marketable parcel of ordinary shares is 870.

On-market buy-back
There is no current on-market buy-back.

Unquoted equity securities
Directors' options
As at 31August 2006, options over ordinary shares were held by:

	Options over ordinary shares	Exercise price	Expiry date
Mr TR Allen	2,000,000	$0.08	31 March 2007
Dr LD Jayaweera	2,000,000	$0.08	31 March 2007
Mr SH Kwan	2,000,000	$0.08	31 March 2007
Mr PS Tang	2,000,000	$0.08	31 March 2007
Mr GW Wrightson	2,000,000	$0.08	31 March 2007

Twenty largest shareholders

Name		Number of ordinary shares held	Percentage of capital held
1	Chemmet Pty Limited	38,034,395	12.88
2	Tennant (2000) Pty Limited	25,000,000	8.47
3	National Nominees Limited	19,242,943	6.52
4	Leet Investments Pty Limited	9,250,000	3.13
5	Picasso Holdings International Limited	8,500,000	2.88
6	Leet Investments Pty Ltd <Superannuation Fund A/C>	6,336,777	2.15
7	Mrs Selina Wu	5,910,859	2.00
8	Rizzo Pty Limited	4,791,000	1.62
9	Merrill Lynch (Australia) Nominees Pty Ltd <Berndale A/C>	3,723,782	1.26
10	Chemmet Pty Limited <Super Fund A/C>	3,510,000	1.19
11	Yan Long Development Limited	3,417,683	1.16
12	Mr John Charles Thomas Lee + Ms Anne Lynette Meier <The John Lee Super Fund A/C>	3,175,000	1.08
13	Citicorp Nominees Pty Limited	3,031,477	1.03
14	Sylvan Securities Pty Ltd <The Gray Super Fund Account>	2,900,000	0.98
15	Brian Gregory Wright + Wendy Joy Wright	2,465,163	0.83
16	Grandream Securities Pty Limited	2,458,463	0.83
17	Mr Gordon Menzies Wilson	2,323,487	0.79
18	Lenvat Pty Ltd <Lenvat Super Fund A/C>	2,300,000	0.78
19	Lewer Corporation Pty Ltd	2,244,980	0.76
20	Mrs Cherrie Frances Doonan	2,000,000	0.68
		150,616,009	51.02