Appendix 4 E

Preliminary final report

Name of entity:	Hydromet Corporation Limited

1 Details of the reporting period

Current period:	1 July 2004 – 30 June 2005
Previous corresponding period:	1 July 2003 – 30 June 2004

2 Results for announcement to the market

				$A'000
2.1 Revenues from ordinary activities	up	70.2 %	to	$16,507
2.2 Profit from ordinary activities after tax attributable to members	up	N/A %	to	$ 2,021
2.3 Net profit attributable to members	up	N/A %	to	$ 2,021

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 Statement of Financial Performance, shows a very pleasing consolidated net profit attributable to member of $2,021,272 compared with loss $989,655 in 2004.

The result represents a turnaround in profitability of the Company. The results were attributed to improvement in recovery of selenium from the selenium/precious metal recovery project along with continued high demand resulting in historically high pricing for selenium during the year. Continuing contribution from the lead slag project in New Zealand has also assisted in achieving the results.

The Company concentrated development efforts on the zinc recovery project in Unanderra along with the waste acid rejuvenation research project which has been supported by an AusIndustry grant.

Further development work was conducted on the arsenic treatment process on behalf of Western Australian clients. A full feasibility study was completed for the used lead acid battery recycling project planned for the Unanderra site.

We expect to conclude negotiations on the arsenic and the battery projects in the September quarter of 2005.

During the period from May to June 2005 the market for selenium altered with demand and price indicators falling. The market prior to the adjustment remained strong through the year with pricing moving from US$18 per lb in July 2004 to US$48 per lb in June 2005. We anticipate a downward price adjustment to be reflected in the September quarter of 2005, however expect overall selenium sales results to remain positive.

The Electric Arc Furnace (EAF) dust project experienced difficulties during the year with both final zinc sulphate quality and high cost of processing as previously reported. In April 2005 we negotiated an interim treatment fee increase with our EAF clients. The increase, applicable for the six months ending October 2005, was necessary to cover the costs of processing the dust and to facilitate further development work to be completed to address the quality and cost issues. Extensive work completed at the date of this report is encouraging with actual operating results improving with the fee increase and first sale of market quality zinc sulphate being made in July 2005.

3 Consolidated statement of financial performance

	Note*	Consolidated 2005 $	Consolidated 2004 $
Revenue from rendering of services		7,273,544	6,257,493
Revenue from sale of goods		8,950,708	3,207,166
Other revenues from ordinary activities		282,297	231,977
Total revenue from ordinary activities	2	16,506,549	9,696,636
Raw materials and consumables used		(2,896,770)	(1,291,196)
Direct production costs		(5,153,574)	(3,589,579)
Employee expenses		(3,520,358)	(2,897,468)
Depreciation and amortisation expenses	3	(1,433,413)	(1,491,990)
Borrowing costs	3	(268,831)	(259,691)
Consultants and professional services		(348,335)	(220,464)
Insurance expenses		(235,104)	(202,139)
Property rental and site costs		(64,668)	(30,480)
Other expenses from ordinary activities		(512,762)	(670,102)
Total expenses		(14,433,815)	(10,653,109)
Profit/(Loss) from ordinary activities before related income tax expense		2,072,734	(956,473)
Income tax expense relating to ordinary activities	5	(51,462)	(33,182)
Net profit/(loss) attributable to members of the parent entity		2,021,272	(989,655)
Total changes in equity from non-owner related transactions attributable to members of the parent entity		2,021,272	(989,655)
Basic and diluted earning/(loss) per ordinary share	7	0.71 cents	(0.37) cents

*Refer to the Notes of the financial statements attached.

4 Consolidated statement of financial position

	Note*	Consolidated 2005 $	Consolidated 2004 $
Current assets			
Cash assets	8	3,442,403	1,262,046
Receivables	9	2,808,965	3,315,141
Inventories	11	2,620,775	200,187
Total current assets		8,872,143	4,777,374
Non-current assets			
Property, plant and equipment	12	8,183,094	8,363,390
Exploration, evaluation and development expenditure	13	372,418	302,199
Intangible assets	14	418,746	663,390
Total non-current assets		8,974,258	9,328,979
Total assets		17,846,401	14,106,353
Current liabilities			
Payables	15	4,096,475	1,698,346
Interest-bearing liabilities	16	754,057	72,801
Provisions	17	916,962	903,111
Total current liabilities		5,767,494	2,674,258
Non-current liabilities			
Interest-bearing liabilities	16	526,047	2,680,623
Provisions	17	658,679	678,563
Total non-current liabilities		1,184,726	3,359,186
Total liabilities		6,952,220	6,033,444
Net assets		10,894,181	8,072,909
Equity			
Contributed equity	18	64,000,126	63,200,126
Reserves	19	505,688	505,688
Accumulated losses	20	(53,611,633)	(55,632,905)
Total equity		10,894,181	8,072,909

*Refer to the Notes of the financial statements attached.

5 Consolidated statement of cash flows

	Note*	Consolidated 2005 $	Consolidated 2004 $
Cash flows from operating activities			
Cash receipts in the course of operations		17,005,225	7,674,869
Cash payments in the course of operations		(12,773,877)	(8,895,313)
Interest received		91,273	54,688
Borrowing costs paid		(268,831)	(243,757)
Income taxes paid		(33,182)	-
Net cash provided by/(used in) operating activities	31(b)	4,020,608	(1,409,513)
Cash flows from investing activities			
Proceeds from sale of non-current assets		7,500	-
Payment for exploration, evaluation and development		(70,219)	-
Payments for property, plant and equipment		(1,011,301)	(546,133)
Net cash used in investing activities		(1,074,020)	(546,133)
Cash flows from financing activities			
Finance lease payments		(92,911)	(66,985)
Proceeds from borrowings:			
Convertible notes		-	1,000,000
Debentures		-	1,100,000
Other		102,489	-
Repayment of borrowings:			
Debentures		(700,000)	-
Other		(75,809)	(76,496)
Net cash (used in)/provided by financing activities		(766,231)	1,956,519
Net increase in cash held		2,180,357	873
Cash at the beginning of the financial year		1,262,046	1,261,173
Cash at the end of the financial year	31(a)	3,442,403	1,262,046

*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 2005 there was a dividend reinvestment plan in operation for Hydromet Corporation Limited.

8 Statement of retained earnings showing movements

Refer Note 20 of the attached financial statements.

9 Net tangible assets per security

The net tangible asset per security was 3.55 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 295,131,585 shares.

10 Control gained or lost over entities during the period

N/A

11 Details of associates and joint venture entities

Refer Note 23 of the attached financial statements.

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 7 of the attached financial statements

14.2 Returns to shareholder
Refer Note 6 of the attached financial statements. 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 26 of the attached financial statements.

14.5 Trend in performance

Year	Total Revenue $'000	Net Profit/(loss) after Tax $'000	Total Assets $'000
2005	16,507	2,021	17,846
2004	9,697	(990)	14,106
2003	4,757	(4,453)	13,315
2002	11,611	1,428	18,205
2001	6,336	(1,659)	12,646

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 Financial Report

Hydromet Corporation Limited
and its controlled entities

ABN 71 002 802 646

30 June 2005

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
Pipvide Tang, MBA, CPA

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

Telephone: 02 4271 1822
Facsimile: 02 4271 6151

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 8216 5500
Investor enquiries: 02 8216 5700

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
for the year ended 30 June 2005

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Hydromet Corporation Limited and its controlled entities
for the year ended 30 June 2005

Chairman's report

On behalf of the Directors of Hydromet Corporation Limited, I am pleased to report a net profit after tax for the year ended 30 June 2005 of $2.021 million. The net profit has been generated from total operating revenue of $16.506 million, an increase of $6.81 Million or 70.2% on 2004 figures.

The profit was made possible as a result of our continuous efforts to establish a solid foundation for sustainable future profits.

Our wholly owned subsidiary Minmet Operations Pty Ltd located at Tomago NSW contributed a significant profit to the group, as a result of strong price increases in the world market for selenium and tellurium during the year along with our improved efficiency and record production of both metals from the plant. There has been a shortage in the world market for both metals due to overall low production and high demand particularly in China. However, despite the above shortage experienced during the year, market analysts do not believe that current high prices can be sustained and expect the price for selenium to drop in the in the 2005/06 year. Noticeable evidence of price resistance emerged during May 2005 with limited commitment to buy at the current high price. The Board believes that although the change in market conditions will see lower pricing, Hydromet's Selenium/Tellurium business will remain strong through the sourcing of economic feed material and strategic marketing of finished products.

Furthermore, selenium and selenium chemicals are essential ingredients for some specific major industries such as glass manufacture, animal feed, lead alloy manufacturing and electrolytic manganese production. In order to take advantage in the selenium chemical market, we have recently moved to produce value added selenium chemicals such as sodium selenate used as an ingredient in animal feed supplements particularly in Australia and New Zealand. We are exploring the possibility for additional selenium feed sources from major international smelting operations whose residues are mainly complex type low grade selenium tellurium bearing streams. In treating these types of materials, Hydromet expects to enjoy favourable technical and processing advantages compared to competitors treating these residues in the world today.

Although, our Unanderra operation has been successful in securing three major contracts to process EAF (Electric Arc Furnace) dust from all three mini steel mills in Australia, we have been unable to deliver the profits expected from these projects during the financial year. This was mainly due to uncontrollable cost components in our process. However, we have been able to turn this situation around with small profits being realised from May 2005. This improvement has been achieved through negotiation of a treatment fee increase with our EAF dust clients for an interim period of May to October 2005. We are very grateful for their support placing their utmost confidence in Hydromet to provide a long term solution for a major environmental problem despite the unexpected processing cost difficulties we encountered during the year.

During the period from May to October we will be addressing a number of issues to optimise the production of zinc sulphate required to maintain a profitable outcome for Hydromet and at the same time recognising the needs of our clients.

Issues to be addressed include:

- Further negotiations with our clients to establish a reasonable treatment fee sustainable by both parties.
- Further refinement of our operating and other costs related to the EAF dust project.
- Entering an aggressive marketing strategy for our zinc sulphate products produced from EAF dust processing and recycling.

Chairman's report (cont'd)

We expect the work underway combined with above elements will enable us to determine the best outcome for both our clients and Hydromet. Hydromet continues to be the only company capable of providing an environmentally sound solution to EAF dust problem in Australia.

The management continues to explore other long term projects for our Unanderra operations capable of generating further revenues and profit for the site. These projects include used lead acid battery recycling, waste sulphuric acid rejuvenation and waste arsenic immobilisation projects.

The battery stripping and recycling project planned for Unanderra is at an advanced stage in finalising the equipment and building design. According to the plan, we expect the revenue and benefit from this project to flow by the end of 2006 financial year. With the EAF dust and lead acid battery recycling projects along with the possible arsenic immobilisation and waste acid projects the Board expects the Unanderra operation will have a solid foundation for long term sustainable business. The battery recycling project has enormous potential as a unique recycling process with only one other waste lead acid battery recycler in Australia.

We are negotiating long term contracts with two major gold producers in Western Australia to immobilise arsenic bearing flue dust from their mine sites at our Unanderra facility. After completion of successful plant trials for both clients, we initially explored the possibility of setting up two processing plants on each of their sites. Recent discussions however have highlighted a feasible option to treat both clients waste at Hydromet's Unanderra plant. We foresee some legitimate advantages such as minimising operating and capital cost, established infrastructure, regulatory approvals and existing efficient management controls at Unanderra which would be more favourable than remote project management. We are in the process of obtaining necessary regulatory approvals from NSW Department of Environment and Conservation for both specific wastes to be treated at Unanderra. These projects have the potential to generate additional revenue streams in the vicinity of $2.5 – 3 million per year for the Unanderra operation.

Our lead slag immobilisation project at Exide in New Zealand is performing well bringing a moderate net contribution to the group. We expect this project to continue on long term basis as Hydromet's process appears to be highly regarded by both the regulatory authorities and our client and there is an opportunity to further enhance the process during the 2006 financial year.

The proposed mercury stabilisation project at Zinifex site in Hobart has made some progress with local council granting clearance to construct a special landfill disposal cell to accept the immobilised mercury waste. We are hoping to commence processing by January 2006. The contractual tonnage to be treated by Hydromet is now estimated to be approximately 3,500Mt as a one off stockpile and lower annual arising on a long term basis.

Outlook for the Future and Challenges

With profits reported over the past 18 months and steps taken to secure ongoing economic feed for the selenium project combined with expected improved conditions with the EAF dust project and planned projects, we are confident that profitability will be sustained in the next year and beyond..

Our next challenge is to build this profit trend to grow our business to deliver much improved returns for our dedicated shareholders. Your company has a unique advantage to capitalise on and build its business in this growing industrial residue recycling and hazardous waste management field. Our unique ability to recycle complex industrial residues and hazardous waste, and or immobilise for safe disposal to landfill, where recycling is not justified, is well recognised by both our clients and regulators.

Chairman's report (cont'd)

Furthermore, Hydromet has the following advantages to take the company forward to the next growth stage. Our major asserts are:

- Hydromet's technology for recycling and or immobilisation of industrial residues and hazardous waste is proven and well recognised.

- We have established a strong reputation with generators and the regulatory authorities. Our clients are typically international and local blue chip industrial and smelting companies. Our past marketing success has been automatically achieved through word of mouth from our existing client base and as a result quality work successfully completed

- We own two freehold facilities capable of receiving and processing large quantities of industrial residues and hazardous waste.

- We have developed a strong team of technical experts built up over the years who are capable of solving complex type residues problems for our clients.

Conclusion

At 30 June 2005 the consolidated entity held a cash reserve of $3.4 million. The balance is after early repayment of $700,000 debentures. In addition, we held finished saleable products, consisting predominantly selenium stock, with a market value of approximately $2 million. Borrowings were $1.1 million which comprised the outstanding balance of debentures. There has been a significant net cash improvement over the financial year compared to that of 2004.

This financial year would have not been successful, if not for our dedicated management and staff. On behalf of the Board of Directors, I would like to thank all the personnel for their continued efforts and dedication in contributing to the company's success in 2005. We also are extremely grateful to our major clients who have stood by Hydromet having the confidence in our service and willing to support us in resolving project issues along the way.

I would like to extend my gratitude to our loyal shareholders for their patience in the past and their continued support. We look forward to greater years ahead.

Dr Lakshman Jayaweera
Chairman

Dated this 6th day of September 2005

Directors' report

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 year ended 30 June 2005 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Name and qualifications	Experience and special responsibilities
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 Chairman from September 2000 to January 2001 and appointed Chairman in January 2001.
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, ATI, MBIM 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. Other directorship includes appointment as a director of Optima ICM Limited on November 2004. Director from 1991 to 1996. Appointed director since 1997. Mr Tang was a non-executive Director from August 2000 to August 2004.
Mr Timothy R Allen Independent Non-Executive Director	Mr Allen has extensive engineering and banking experience with qualifications in mining, engineering and economics and he is a member of the Securities Institute of Australia. He is also a director of Mount Conqueror Minerals NL and Central West Gold NL. Member of Audit and Remuneration Committee. Director since October 2001.
Mr Stephen B Wolfe, MBA Non-Executive Director	Mr. Wolfe has twenty years experience in the banking, resource, logistic, chemicals and raw materials industry. Member of Audit and Remuneration Committee. Director since February 2004.

Directors' report (cont'd)

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 held the role of company secretary with another listed public company for over three years.

Directors' meetings

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

	Board meetings		Audit and remuneration committee meetings	
Directors	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr SH Kwan	9	6	2	2
Mr GW Wrightson	9	9	-	-
Dr LD Jayaweera	9	8	-	-
Mr PS Tang	9	9	1	1
Mr TR Allen	9	9	1	1
Mr SB Wolfe	8	8	1	1

Corporate governance statement

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

Board of Directors

Role of the board

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

To fulfil this role, the Board is responsible for the overall corporate governance of the 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 operation and administration of the Company to the Executive Chairperson, Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Directors' report (cont'd)

Corporate governance statement (cont'd)

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.

The full Board currently holds meetings every two months, 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 4 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.

Directors' report (cont'd)

Corporate governance statement (cont'd)

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, and those which do not have extensive expertise in significant aspects of auditing and financial reporting, or 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 two independent non-executive directors and a non-executive director.

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 5% 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 5% 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.

Directors' report (cont'd)

Corporate governance statement (cont'd)

The Board considers, 'material', in this context, where any director-related business relationship has represented, or is likely in the future to represent the lesser of at least 10% of the relevant segment's or the director-related business' revenue. The Board considered the nature of relevant industries' competition, and the size and nature of each director-related business relationship, in arriving at this threshold.

Audit and Remuneration Committee

The Audit and Remuneration Committee has a documented charter, approved by the Board. 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 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 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 meets twice a year and as required. The Committee met twice during the year and committee members' attendance record is disclosed in the table of directors' meetings.

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 2005 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 Committee and the Board of Directors during the year without management being present.

The members of Audit and Remuneration Committee during the year were:

- Mr SH Kwan, MPhil, ATI, MBIM - Independent Non-Executive Director
- Mr. SB Wolfe, MBA (appointed 3 February 2005) – Non-Executive Director
- Mr. TR Allen (appointed 3 February 2005) – Independent Non-Executive Director
- Mr PS Tang, MBA, CPA (resigned 3 February 2005) - Finance Director

Mr. Tang resigned from the Audit and Remuneration Committee upon his appointment as an executive director.

The Audit and Remuneration Committee reviews and makes recommendation to the Board on remuneration packages and policies applicable to the executive officers and directors of the Company and of other group executives for the 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 16 to 19 and forms part of the directors' report for the financial year ended 30 June 2005.

Directors' report (cont'd)

Corporate governance statement (cont'd)

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 in 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.

The responsibilities of the Audit and Remuneration Committee also 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 Accounting Standards and generally accepted accounting principles, 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 Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- assessing the performance and objectivity of the internal audit function;
- 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 deemed necessary by the Board;
- monitoring compliance with the Company's Fraud Control Plan and monitoring prompt and appropriate rectification of any deficiencies or breakdowns identified;

Directors' report (cont'd)

Corporate governance statement (cont'd)

- monitoring the procedures to ensure compliance with Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, 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; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

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.

Directors' report (cont'd)

Corporate governance statement (cont'd)

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, detail 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.

Comprehensive practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval.
- Financial exposures are controlled, including the use of derivatives.
- 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 co-operation 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.

Directors' report (cont'd)

Corporate governance statement (cont'd)

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) is a key current financial reporting project, and the board has established a formal project, monitored by the Finance Director, to ensure a smooth transition to AIFRS reporting, beginning with the half-year ended 31 December 2005.

Details of the progress of the implementation project and the expected impact of transition to AIFRS on the financial report for the year ended 30 June 2005 are included in Note 33.

The Consolidated Entity is expected to be in a position to fully comply with the reporting requirements of AIFRS for the 30 June 2006 financial year.

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.

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.

Directors' report (cont'd)

Corporate governance statement (cont'd)

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.

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 28.

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 and practices and disclosure;
- fulfilling responsibilities to customers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced;

Directors' report (cont'd)

Corporate governance statement (cont'd)

- employment practice such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- responsibilities to the community, such as environmental protection policies, supporting community activities and sponsorships and donations;
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- compliance with legislation including policies on legal compliance in countries where the legal systems and protocols are significantly lower than Australia's;
- conflicts of interest;
- corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain;
- confidentiality of corporate information;
- fair dealing;
- protection and proper use of the Company's assets;
- compliance with law; and
- reporting of unethical behaviour.

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 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:
  - 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; and
  - 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.

Directors' report (cont'd)

Corporate governance statement (cont'd)

- Identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

Communication with shareholders

The Board provides shareholders with information which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX 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.
- The external auditor attends the annual general meetings to answer any 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.

Directors' report (cont'd)

Remuneration report

Remuneration policies

Remuneration levels for directors, secretaries and senior managers of the consolidated entity ("the directors and senior executives") are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Audit and Remuneration Committee advises the Board on the appropriateness of remuneration packages given trends in comparative companies locally and the objectives of the Company's remuneration strategy.

The remuneration 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 remuneration structures take into account:

- the capability and experience of the directors and senior executives
- the directors and senior executives ability to control the relevant operations' performance
- the consolidated entity's performance including:
  - the consolidated entity's earnings
  - the growth in share price and returns on shareholder wealth

Remuneration packages include fixed remuneration and long-term incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (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.

Remuneration levels are reviewed annually by the Audit and Remuneration Committee through a process that considers individual, operational and overall performance of the consolidated entity. A senior executive's remuneration 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 ordinary share options for no consideration. 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.

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 and payment of insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, and the Company pays fringe benefits tax on these benefits, if applicable.

Directors' report (cont'd)

Remuneration report (cont'd)

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 remuneration for all non-executive directors, last voted upon by shareholders at the 2004 AGM, are not to exceed $200,000 per annum and are 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 controlling entities. The Chairperson and committee members receive no extra fees. Directors' fees cover all main board activities and membership of 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 (cont'd)

Remuneration report (cont'd)

Directors' and executive officers' remuneration

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:

		Primary		Post-employ-ment	Equity compen-sation	Other compen-sation		
		Salary & fees $	Non-monetary benefits $	Super-annuation benefits $	Value of Options (i) $	Insurance Premium (ii) $	Total $	Value of options as proportion of remuneration %
Directors								
Non-executive								
Mr SH Kwan	2005	25,000	-	2,250	-	8,362	35,612	-
	2004	25,000	-	2,250	-	13,225	40,475	-
Mr TR Allen	2005	33,884	-	3,399	-	8,362	45,645	-
	2004	25,000	-	4,979	-	13,225	43,204	-
Mr SB Wolfe	2005	25,000	-	2,250	-	8,362	35,612	-
	2004	10,417	-	938	-	4,935	16,290	-
Executive								
Dr LD Jayaweera	2005	172,499	36,085	15,525	-	8,362	232,471	-
Chairperson	2004	159,998	33,951	12,000	-	13,225	219,174	-
Mr GW Wrightson	2005	181,249	17,776	22,896	-	8,362	230,283	-
Managing Director	2004	188,460	21,647	15,162	-	13,225	238,494	-
Mr PS Tang (iii)	2005	92,028	25,874	8,633	-	8,362	134,897	-
Finance Director	2004	25,000	-	2,250	-	13,225	40,475	-
Total, all	2005	529,660	79,735	54,953	-	50,172	714,520	
specific directors	2004	433,875	55,598	37,579	-	71,060	598,112	

(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 1,000,000 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 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

Directors' report (cont'd)

Remuneration report (cont'd)

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 these 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.

(iii) Mr. Tang was appointed Finance Director on August 2004.

Analysis of share-based payments granted as remuneration

Details of vesting profile of the options granted as remuneration to each director of the Company is detailed below:

Directors	Options granted		% vested 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	-%	-	-	-
	500,000	19 December 2002	100%	-	-	-
	500,000	19 December 2002	-%	30 June 2006	nil	nil
	500,000	19 December 2002	-%	30 June 2007	nil	nil
Mr. TR Allen	500,000	19 December 2002	-%	-	-	-
	500,000	19 December 2002	100%	-	-	-
	500,000	19 December 2002	-%	30 June 2006	nil	nil
	500,000	19 December 2002	-%	30 June 2007	nil	nil
Dr LD Jayaweera	500,000	19 December 2002	-%	-	-	-
	500,000	19 December 2002	100%	-	-	-
	500,000	19 December 2002	-%	30 June 2006	nil	nil
	500,000	19 December 2002	-%	30 June 2007	nil	nil
Mr. GW Wrightson	500,000	19 December 2002	-%	-	-	-
	500,000	19 December 2002	100%	-	-	-
	500,000	19 December 2002	-%	30 June 2006	nil	nil
	500,000	19 December 2002	-%	30 June 2007	nil	nil
Mr. PS Tang	500,000	19 December 2002	-%	-	-	-
	500,000	19 December 2002	100%	-	-	-
	500,000	19 December 2002	-%	30 June 2006	nil	nil
	500,000	19 December 2002	-%	30 June 2007	nil	nil

(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 of option is exercised does not exceed $0.08.

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.

Directors' report (cont'd)

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 products therefrom;
- the manufacture of chemicals and resource recovery; and
- the development of environmental, remediation and mineral processing technologies.

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

Operating and financial review

Overview of the consolidated entity

The consolidated Statement of Financial Performance, shows a very pleasing consolidated net profit attributable to member of $2,021,272 compared with loss $989,655 in 2004.

The result represents a turnaround in profitability of the Company. The results were attributed to improvement in recovery of selenium from the selenium/precious metal recovery project along with continued high demand resulting in historically high pricing for selenium during the year. Continuing contribution from the lead slag project in New Zealand has also assisted in achieving the results.

The Company concentrated development efforts on the zinc recovery project in Unanderra along with the waste acid rejuvenation research project which has been supported by an AusIndustry grant.

Further development work was conducted on the arsenic treatment process on behalf of Western Australian clients. A full feasibility study was completed for the used lead acid battery recycling project planned for the Unanderra site.

We expect to conclude negotiations on the arsenic and the battery projects in the September quarter of 2005.

During the period from May to June 2005 the market for selenium altered with demand and price indicators falling. The market prior to the adjustment remained strong through the year with pricing moving from US$18 per lb in July 2004 to US$48 per lb in June 2005. We anticipate a downward price adjustment to be reflected in the September quarter of 2005, however expect overall selenium sales results to remain positive.

The Electric Arc Furnace (EAF) dust project experienced difficulties during the year with both final zinc sulphate quality and high cost of processing as previously reported. In April 2005 we negotiated an interim treatment fee increase with our EAF clients. The increase, applicable for the six months ending October 2005, was necessary to cover the costs of processing the dust and to facilitate further development work to be completed to address the quality and cost issues. Extensive work completed at the date of this report is encouraging with actual operating results improving with the fee increase and first sale of market quality zinc sulphate being made in July 2005.

Directors' report (cont'd)

Operating and financial review (cont'd)

Significant changes in the state of affairs

On 17 December 2004 1,000,000 convertible notes with principle value of $1 each were converted to 25,000,000 fully paid ordinary shares. Accordingly, the fully paid ordinary share capital was increased by $1,000,000.

During the month of May and June 2005 the Company redeemed $700,000 debentures. The outstanding balance of debentures as at 30 June 2005 was $1,100,000.

Review of principal businesses

Hydromet Operations (Southern) Limited – Unanderra NSW

The Unanderra facility is primarily focused on processing up to 22,000 tonnes per annum of EAF dust generated by our three steel mini mill clients. As outlined above the difficulties experienced during the year with product quality, processing cost and EAF dust variability resulted in the site operating at a loss. Successful negotiations with our clients resulted in the interim treatment fee increase being agreed and work continuing to address the difficulties referred to.

The key objectives of the EAF dust project are:

- to produce zinc sulphate from the zinc extracted from the dust to the specification required by the market.
- to process the dust at the lowest possible cost.
- to agree an ongoing commercially acceptable treatment fee with our clients which along with zinc sulphate sales will provide a profitable and sustainable EAF dust project.

During the year we have processed 16,949 tonnes of EAF dust and produced 555 tonnes of zinc sulphate from zinc recovered.

The waste acid rejuvenation project continued during the year with a small pilot plant installed to process the refinery waste and produce commercial grade sulphuric acid capable of being utilised in our zinc sulphate project replacing the current high cost sulphuric acid used to extract zinc from the dust. The potential long term cost benefits to the EAF project could be substantial. Internal consumption trials of acid recovered and used in the zinc sulphate project at Unanderra and the selenium project at Minmet have been positive. Other markets will also be available for acid generated from our process. AusIndustry funding for this research project will expire in September however we will continue to complete this valuable work and expect to finalise findings by end December 2005.

Commercial considerations and equipment assessment continued on the proposed used lead acid battery project planned for the site with local Council and Department of Environment and Conservation official approval for the unique process granted in August 2004. Negotiations for a possible joint venture arrangement with a lead product user are underway. At the same time we are evaluating alternative crucial equipment options for the battery breaking function of the project. Assuming a September decision on the commercial structure of the project, equipment supply and installation could be complete by April 2006.

Directors' report (cont'd)

Operating and financial review (cont'd)

Minmet Operations Pty Limited – Tomago NSW

Minmet contributed an outstanding result for the year benefiting from the strong demand and historically high pricing for selenium recovered from the precious metal/selenium project. The high demand experienced in the year was driven primarily by the industrial boom in China and limited supply sources for the minor metal.

During the year Minmet processed 356 tonnes of precious metal/selenium bearing residue from its Falconbridge (Norway) and Kennecott Copper (USA) clients extracting 129 tonnes of high grade selenium for sale to overseas customers. With world production of selenium estimated to be 2,500 to 3,000 tonnes per annum Minmet's output represented approximately 5% of the market.

The selenium price ranged from US$18 per lb in July 2004 risen to US$48 per lb in June 2005 prior to the decreased demand experienced since April. Strong price resistance emerged in May due, as we understand, to a drop in demand for manganese alloys produced in China. We expect the effect of the recent adjustment to be reflected in the September quarter sales.

To counter anticipated price corrections for selenium the company introduced upgrading options for the selenium to soften the effect of a general price fall for selenium and provide a wider market through product diversification. Sales of these higher grade products commenced in June 2005 with further value adding options under consideration for the 2006 financial year.

Lead Slag Project – Wellington New Zealand

The initial contract to immobilise 4,000 tonnes of lead slag using Hydromet's immobilisation technology was completed in September 2004.

Hydromet continues to provide a service treating daily arising of slag under an open arrangement which includes total handling of the lead slag generated at the Wellington smelter. An ongoing service proposal is presented to the client and we expect the agreement to be finalised in the September 2005 quarter.

Further involvement with the smelter was initiated in August 2005 with Hydromet to propose a process improvement to final treated slag characteristics to meet new disposal guidelines introduced by the local authorities.

Hydromet Operations Limited – Hobart Tasmania

Hydromet's mercury immobilisation technology will be utilised to treat a stockpile of mercury residues to enable the treated material to be disposed under landfill disposal criteria.

This project has been delayed while the generator arranges regulated landfill disposal approval. Once approval is received we plan to utilise our onsite processing plant to immobilise the residues.

The project is expected to treat an initial stockpile of the residues and then to process ongoing arising from the clients facility.

Revised anticipated start date is January 2006.

Directors' report (cont'd)

Operating and financial review (cont'd)

The Stanton Project – NT

In July 2004 we entered into a Sale Option Agreement with a party interested in purchasing the prospect to mine the cobalt bearing ore at the lease located in the gulf area of the Northern Territory.

The option expired on July 2005 and after a detailed evaluation of the commercial expectations of the project, the party has decided to allow the option to lapse.

Arsenic Project – WA

Hydromet is finalising details on a waste arsenic immobilisation project for a Western Australia mining company. A decision to either process in the west or at our Unanderra plant is being evaluated to determine the relative benefits of the alternatives to both the client and Hydromet. This review is expected to be concluded by the end of September 2005 with processing to commence as soon as practical after the decision on location.

At the same time a second client has requested Hydromet to re-evaluate a proposal to treat their similar arising.

Projects of this scale are important to Hydromet absorbing spare plant capacity and provide valuable contribution to revenue and profitability while at the same time further enhancing the company's reputation for providing solutions to difficult hazardous waste disposal issues.

Likely developments

- We will resolve outstanding quality and processing cost issues associated with the EAF dust project by October 2005 with the findings of the study to form the basis of discussions with our clients to ensure the project is commercially sound, meeting client expectations and capable of generating sustainable profitability for the Unanderra facility.

- Final details of the battery recycling project will be completed with a decision on business structure and equipment by end September 2005. Expected project commencement date is April 2006.

- We will complete the acid rejuvenation research programme by September 2005 to determine the likely technical and commercial expectations from the unique separation process developed by Hydromet.

- Mercury immobilisation project expected to commence in January 2006.

- After lapse of the Stanton Sale Option in July 2005 we will reconsider development options for the mining lease to determine whether timing is appropriate to undertake recovery of cobalt bearing ore from the reserve.

Directors' report (cont'd)

Dividends

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

Events subsequent to reporting date

The option agreement that the Company entered into in July 2004 to sell the Stanton Cobalt-Nickel Mineralisation Prospect (EL23531) in the Northern Territory has expired in July 2005 and has not been exercised by the holder. The Company is exploring alternatives to develop or divest the Prospect.

On 1 August 2005 the Company had 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. The Company believes the release of the mining mortgage will be valuable to the future development or divestment of the Prospect.

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 33 to the financial statements.

Other than matters discussed above, 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.

Directors' interests

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	20,021,585
Mr SH Kwan	2,000,000	46,000
Mr PS Tang	2,000,000	80,000
Mr GW Wrightson	2,000,000	578,300
Mr SB Wolfe	-	25,000,000

Directors' report (cont'd)

Share options

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

Unissued shares under option

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.

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 role 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 cost 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 executive officers of the Company and directors, 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 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 (cont'd)

Indemnification and insurance of officers (cont'd)

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.

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 Corporation 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.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included in page 29.

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	
	2005 $	2004 $
Statutory audit		
- audit and review of financial reports (KPMG Australia)	70,137	70,128
Services other than statutory audit		
Other regulatory audit service		
- Worker Compensation Audit (KPMG Australia)	1,000	2,000
Other services		
- controls advisory service	-	329
- IFRS training services (KPMG Australia)	5,000	-
- taxation compliance services (KPMG Australia)	26,233	10,650
- taxation compliance services (KPMG New Zealand)	26,482	16,035
	58,715	29,014

Directors' report (cont'd)

This report is made with a resolution of the directors:

Gregory Wrightson
Managing Director

Dated at Wollongong this 6th day of September 2005.

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporation 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 2005 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporation Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Warwick Shanks
Partner

Place: Wollongong
Date: 6th September 2005

Hydromet Corporation Limited and its controlled entities

Statements of financial performance
for the year ended 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Revenue from rendering of services		7,273,544	6,257,493	1,640,585	1,323,463
Revenue from sale of goods		8,950,708	3,207,166	-	-
Other revenues from ordinary activities		282,297	231,977	235,504	158,733
Total revenue from ordinary activities	2	16,506,549	9,696,636	1,876,089	1,482,196
Raw materials and consumables used		(2,896,770)	(1,291,196)	(187,593)	(218,542)
Direct production costs		(5,153,574)	(3,589,579)	(1,108,222)	(732,873)
Employee expenses		(3,520,358)	(2,897,468)	(1,279,410)	(911,224)
Depreciation and amortisation expenses	3	(1,433,413)	(1,491,990)	(78,769)	(51,075)
Write back of intercompany loans and investments		-	-	3,909,230	627,750
Borrowing costs	3	(268,831)	(259,691)	(56,632)	(66,116)
Consultants and professional services		(348,335)	(220,464)	(293,747)	(157,386)
Insurance expenses		(235,104)	(202,139)	(83,617)	(86,589)
Property rental and site costs		(64,668)	(30,480)	(21,363)	(15,304)
Other expenses from ordinary activities		(512,762)	(670,102)	(269,344)	(345,003)
Profit/(loss) from ordinary activities before related income tax expense		2,072,734	(956,473)	2,406,622	(474,166)
Income tax expense relating to ordinary activities	5(a)	(51,462)	(33,182)	(51,462)	(33,182)
Net profit/(loss) attributable to members of the parent entity		2,021,272	(989,655)	2,355,160	(507,348)
Total changes in equity from non-owner related transactions attributable to members of the parent entity		2,021,272	(989,655)	2,355,160	(507,348)
Basic and diluted earning/(loss) per ordinary share	7	0.71 cents	(0.37) cents		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 32 to 81.

Hydromet Corporation Limited and its controlled entities

Statements of financial position
as at 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Current assets					
Cash assets	8	3,442,403	1,262,046	3,078,644	708,073
Receivables	9	2,808,965	3,315,141	532,557	1,020,522
Inventories	11	2,620,775	200,187	1,076	4,309
Total current assets		8,872,143	4,777,374	3,612,277	1,732,904
Non-current assets					
Receivables	9	-	-	8,793,900	7,022,654
Other financial assets	10	-	-	6,458,028	3,525,019
Property, plant and equipment	12	8,183,094	8,363,390	309,370	263,397
Exploration, evaluation and development expenditure	13	372,418	302,199	-	-
Intangible assets	14	418,746	663,390	-	-
Total non-current assets		8,974,258	9,328,979	15,561,298	10,811,070
Total assets		17,846,401	14,106,353	19,173,575	12,543,974
Current liabilities					
Payables	15	4,096,475	1,698,346	589,278	572,823
Interest-bearing liabilities	16	754,057	72,801	34,817	60,476
Provisions	17	916,962	903,111	208,041	165,205
Total current liabilities		5,767,494	2,674,258	832,136	798,504
Non-current liabilities					
Interest-bearing liabilities	16	526,047	2,680,623	89,570	854,857
Provisions	17	658,679	678,563	51,762	61,632
Loans from controlled entities	29	-	-	10,263,735	6,047,769
Total non-current liabilities		1,184,726	3,359,186	10,405,067	6,964,258
Total liabilities		6,952,220	6,033,444	11,237,203	7,762,762
Net assets		10,894,181	8,072,909	7,936,372	4,781,212
Equity					
Contributed equity	18	64,000,126	63,200,126	64,000,126	63,200,126
Reserves	19	505,688	505,688	150,000	150,000
Accumulated losses	20	(53,611,633)	(55,632,905)	(56,213,754)	(58,568,914)
Total equity		10,894,181	8,072,909	7,936,372	4,781,212

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 32 to 81.

Hydromet Corporation Limited and its controlled entities

Statements of cash flows
for the year ended 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Cash flows from operating activities					
Cash receipts in the course of operations		17,005,225	7,674,869	2,321,356	443,891
Cash payments in the course of operations		(12,866,788)	(8,946,364)	(3,237,630)	(2,094,837)
Interest received		91,273	54,688	71,737	39,747
Borrowing costs paid		(252,696)	(243,757)	(45,135)	(55,868)
Income taxes paid		(33,182)	-	(33,182)	-
Net cash provided by/(used in) operating activities	31(b)	3,943,832	(1,460,564)	(922,854)	(1,667,067)
Cash flows from investing activities					
Proceeds from loans from controlled entities		-	-	3,420,941	540,902
Proceeds from sale of non-current assets		7,500	-	-	-
Payment for exploration, evaluation and development		(70,219)	-	-	-
Payments for property, plant and equipment		(914,809)	(546,133)	(63,533)	(117,637)
Net cash (used in)/provided by investing activities		(977,528)	(546,133)	3,357,408	423,265
Cash flows from financing activities					
Finance lease payments		(85,947)	(92,430)	(63,983)	(75,905)
Proceeds from borrowings:					
Convertible notes		-	1,000,000	-	1,000,000
Debentures		-	1,100,000	-	-
Repayment of borrowings:					
Debentures		(700,000)	-	-	-
Net cash (used in)/provided by financing activities		(785,947)	2,007,570	(63,983)	924,095
Net increase/(decrease) in cash held		2,180,357	873	2,370,571	(319,707)
Cash at the beginning of the financial year		1,262,046	1,261,173	708,073	1,027,780
Cash at the end of the financial year	31(a)	3,442,403	1,262,046	3,078,644	708,073

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 32 to 81.

1 Statement of significant accounting policies

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Associates

Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

1 Statement of significant accounting policies (cont'd)

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Rendering of services

Revenue from processing of industrial residues is recognised in proportion to the stage of completion of the contract when the stage of contract completion can be reliably measured. The stage of completion is assessed by reference to surveys of work performed.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is only recognised to the extent of costs incurred. An expected loss is recognised immediately as an expense.

Unearned income

Income received in advance is deferred until the services are performed.

Sale of goods

Revenue from the sale of chemical products is recognised (net of returns, discounts and other allowances) when control of the goods passes to the customer.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Any related balance in the asset revaluation reserve is transferred to the general reserve on disposal.

Research and development grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

(d) Goods and services tax

Revenues, 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.

1 Statement of significant accounting policies (cont'd)

(d) Goods and services tax (cont'd)

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

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 taxation authority are classified as operating cash flows.

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

(f) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and finance charges in respect of finance lease.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Borrowing costs are expensed as incurred.

(g) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit/(loss) attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Dilute EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

1 Statement of significant accounting policies (cont'd)

(h) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond a reasonable doubt, or if relating to tax losses when realisation is virtually certain.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

Tax consolidation

The company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 21. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

Subject to meeting the above requirements, the head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intra-group transactions).

At 30 June 2005, no tax funding agreement has been entered into.

(i) Acquisitions of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

The cost of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Research and development

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is capitalised.

1 Statement of significant accounting policies (cont'd)

(i) Acquisitions of assets (cont'd)

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, the costs are expensed as incurred.

(j) Use and revisions of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. 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.

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.

(k) Receivables – Note 9

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Trade debtors are to be settled within 60 days and are carried at amount due.

(l) Inventories – Note 11

Raw materials and stores, work in progress and finished goods are carried at the lower of cost allocated and net realisable value.

Cost includes direct materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

Manufacturing activities

The cost of manufacturing inventories and work-in-progress are assigned on a first-in, first-out basis. Costs arising from exceptional wastage are expensed as incurred.

Net realisable value

Net realisable value is determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(m) Investments – Note 10

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

1 Statement of significant accounting policies (cont'd)

(m) Investments (cont'd)

Associates

In the Company's financial statements investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

(n) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases – Note 16

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(o) Exploration, evaluation and development expenditure – Note 13

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.

(p) Intangibles

The cost of the intangible is amortised over the period in which the related benefits are expected to be realised. The carrying amount of the intangible is reviewed at each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance. The amortisation rate applied is 11.0% on original cost.

1 Statement of significant accounting policies (cont'd)

(q) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (see Note 1(o)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the financial year in which it occurs.

Current valuations for land and buildings valued on the cost basis are carried out at least once every three years.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(r) Depreciation and amortisation

Complex assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Useful lives

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until commercial production commences.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

1 Statement of significant accounting policies (cont'd)

(r) Depreciation and amortisation (cont'd)

The depreciation/amortisation rates used for each class of asset are as follows:

	2005 %	2004 %
Property, plant and equipment		
Buildings and freehold improvements	2.5	2.5
Plant and equipment	13-25	13-25
Office equipment and fixtures	13-27	13-27
Motor vehicles	15-25	15-25
Leased vehicles and machinery	15-25	15-25
Intangibles		
Hydroproc process	11	11

(s) Payables – Note 15

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payables are normally settled within 60 days.

(t) Interest bearing liabilities – Note 16

Debentures and notes payable are recognised when issued at the net proceeds received. Interest expense is recognised on an effective yield basis.

(u) Employee benefits – Note 24

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, 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 company car provided, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

1 Statement of significant accounting policies (cont'd)

(u) Employee benefits (cont'd)

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Employee share and option plans

Where shares or options are issued to employees, including directors, as remuneration for past services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in the contributed equity.

Shares or options issued to employees, including directors, pursuant to the Employee Share Option Plan are recorded in contributed equity at the fair value of consideration received, if any.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

Superannuation plan

The Company and other controlled entities contribute to employee nominated superannuation funds. Contributions are recognised as an expense as they are made. The Company and its controlled entities have no legal or constructive obligation to fund any deficit. Further information is set out in Note 24.

(v) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Provisions for disposal of residues and site clean up

Provisions are made for estimated costs relating to the remediation of soil, groundwater and untreated waste as soon as the need is identified.

Provisions are determined on an undiscounted basis on the basis of current costs, current legal requirements and current technology. Changes in estimates are dealt with on a prospective basis.

1 Statement of significant accounting policies (cont'd)

(w) Financial instruments issued

Convertible financial instruments

Where financial instruments, such as convertible notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

Where financial instruments are redeemable at the option of the holder, redeemable at a fixed date or perpetual instruments with cumulative interest obligations, the proceeds received are classified as a liability and related distributions as interest expense.

Where financial instruments are redeemable but either the holder or the Company has an option to convert them into ordinary shares of the Company, they are classified as compound instruments. The liability component is measured as the present value of the principal and interest obligations, discounted at the prevailing market rate for a similar liability that does not have an equity component. The residual of the net proceeds received on issuing the instrument is classified as equity.

Interest expense on compound instruments is determined based on the liability component and includes the actual interest paid to holders. The liability accrues over the life of the instruments to the original face value if they are not previously converted. There are no dividends associated with the equity component.

	Consolidated		The Company	
	2005	2004	2005	2004
	$	$	$	$
2 Revenue from ordinary activities				
Rendering of services revenue from operating activities	7,273,544	6,257,493	1,640,585	1,323,463
Sale of goods revenue from operating activities	8,950,708	3,207,166	-	-
Other revenue:				
From operating activities				
■ Interest received from unrelated parties	91,273	54,688	71,737	39,747
■ Net foreign exchange gain	-	-	42,698	-
■ Freight income	27,601	55,554	-	-
From outside operating activities				
■ Gross proceeds on sales of property, plant and equipment	7,500	- -	-	-
■ Research and development grant	53,937	111,835	53,937	111,835
■ Option fee received	60,000	-	60,000	-
■ Other	41,986	9,900	7,132	7,151
Total other revenue	282,297	231,977	235,504	158,733
Total revenue from ordinary activities	16,506,549	9,696,636	1,876,089	1,482,196

3 Profit/(Loss) from ordinary activities before income tax expense

	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Profit/(loss) from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:				
Cost of goods sold	1,647,529	971,933	-	-
Borrowing costs paid or payable in respect to:				
■ finance leases	16,135	15,934	11,497	10,248
■ debenture costs	198,115	179,671	-	-
■ financial institutions	11,752	12,767	2,306	4,549
■ convertible notes classified as liabilities	42,829	51,319	42,829	51,319
	268,831	259,691	56,632	66,116
Depreciation and retirement of:				
■ buildings and freehold improvements	82,712	83,536	-	-
■ plant and equipment	1,035,491	1,112,185	22,156	15,056
■ office equipment and fixtures	27,649	10,562	23,306	6,501
■ motor vehicles	16,411	18,856	7,252	7,311
Amortisation of:				
■ intangibles	244,644	244,644	-	-
■ leased vehicles and machinery	26,506	22,207	26,055	22,207
	1,433,413	1,491,990	78,769	51,075
Net expense/(credit) from movements in provision for:				
■ employee entitlements	236,384	141,096	97,607	(19,574)
■ disposal of residues	-	(315,155)	-	-
■ Write back in loans to controlled entities and investments	-	-	(3,909,230)	(627,750)
Research and development expenses	136,722	174,027	1,500	-
Net foreign exchange loss/(gain)	28,816	20,603	(42,698)	(6,666)
Net gain on sales of property, plant and equipment	4,673	-	-	-

4 Auditors' remuneration

	Consolidated		The Company	
	2005 $	2004 $	2005 $	2004 $
Audit services				
Auditors of the Company				
KPMG Australia:				
■ Audit and review of the financial reports	70,137	70,128	70,137	70,128
■ Other regulatory audit services	1,000	2,000	1,000	2,000
	71,137	72,128	71,137	72,128
Other services				
Auditors of the Company				
KPMG Australia:				
■ Taxation services	26,233	10,650	26,233	10,650
■ Other services	5,000	329	5,000	-
Overseas KPMG Firms:				
■ Taxation services	26,482	16,035	26,482	16,035
	128,852	99,142	128,852	98,813

5 Taxation

(a) *Income tax expense*

	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Prima-facie income tax expense/(revenue) at 30% (2004: 30%) on the profit from ordinary activities	621,820	(286,943)	721,987	(142,250)
Increase in income tax expense due to:				
■ Non deductible items	22,342	3,830	20,631	946
■ Assessable items	-	-	-	-
■ Non deductible diminution in value of investment/loans	-	-	-	445,119
■ Provision for tax payable of New Zealand operation	51,462	33,182	51,462	33,182
■ Non deductible depreciation and amortisation	97,348	97,660	-	-
	792,972	(152,271)	794,080	336,997
Decrease in income tax expense due to:				
■ Non assessable items	(64,784)	(30,165)	(64,784)	(30,165)
■ Non assessable adjustment to diminution in value of investments/loans	-	-	(1,172,769)	(633,444)
■ Other deductible items	-	(1,571)	-	(32)
	728,188	(184,007)	(443,473)	(326,644)
Tax effect of losses not previously brought to account	(666,904)	328,068	499,365	400,705
Tax effect of timing differences not brought to account	(9,822)	(110,879)	(4,430)	(40,879)
Tax losses transferred for nil consideration	-	-	-	-
Income tax expenses on the profit from ordinary activities	51,462	33,182	51,462	33,182

5. Taxation (cont'd)

(b) Current tax liabilities/(assets)

Provision for current income tax
Movement during the year:

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Balance at beginning of year		(122,507)	-	(122,507)	-
Income tax (paid)/refunded – prior year operating activities New Zealand		122,507	-	122,507	-
Income tax (paid)/refunded – current year operating activities New Zealand		(125,035)	(155,689)	(125,035)	(155,689)
Current year income tax expense on profit from ordinary activities of Australia		-	-	-	-
Current year income tax expense on profit from ordinary activities of New Zealand		51,462	33,182	51,462	33,182
		(73,573)	(122,507)	(73,573)	(122,507)

Future income tax benefit not taken to account

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
The potential future income tax benefit in controlled entities, which are companies, arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt	1(h)	1,930,982	2,607,706	1,930,982	2,607,706

The potential future income tax benefit will only be obtained if:

- the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- the relevant company continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the relevant company in realising the benefit.

6 Dividends

No dividends paid or declared by the Company to members in the current financial year (2004: nil).

	The Company	
	2005	2004
	$	$
Dividend franking account		
30% franking credits available to shareholders of HydroMet Corporation Limited for subsequent financial years	3,216,850	3,216,850

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Tax Consolidation legislation

On 1 July 2003, Hydromet Corporation Limited and its wholly-owned subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 June 2005 has been measured under the new legislation as those available from the tax-consolidated group.

7 Earnings per share

Ordinary shares on issue during the year are the only classification of securities included in the basic and diluted earnings per share calculation.

Further details of these securities are contained in Note 18.

7 Earnings per share (cont'd)

Earnings reconciliation

	Consolidated	
	2005	2004
	$	$
Net Profit/(loss)	2,021,272	(989,655)
Basic Profit/(loss)	2,021,272	(989,655)
	No.	No.
Weighted average number of ordinary shares used as the denominator number for basic earnings per share	283,556,243	270,131,585

On 17 December 2004, $1,000,000 convertible notes were converted to 25,000,000 ordinary shares. The basic EPS calculation includes that portion of ordinary shares weighted with reference to the date of conversion. The weighted average number included is 13,424,658 (2004: nil).

	Consolidated	
	2005	2004
	$	$
The following securities have not been included in the calculation of diluted EPS as they are not dilutive:		
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
Convertible notes issued on 19 December 2003	-	1,000,000

Full details of these options are set out in Note 18.

8 Cash assets

	Consolidated		The Company	
	2005	2004	2005	2004
	$	$	$	$
Cash at bank and on hand	3,442,403	1,262,046	3,078,644	708,073

9 Receivables

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Current					
Trade debtors		2,257,028	2,699,464	228,829	866,599
Sundry debtors		551,937	615,677	303,728	153,923
		2,808,965	3,315,141	532,557	1,020,522
Non-current					
Loans to controlled entities		-	-	37,722,989	36,927,964
Provision for doubtful debts		-	-	(28,929,089)	(29,905,310)
	29	-	-	8,793,900	7,022,654
Loans to associated company	23	194,510	194,510	194,510	194,510
Provision for doubtful debts		(194,510)	(194,510)	(194,510)	(194,510)
		-	-	-	-

Sundry debtor amounts generally arise from usual operating activities which are not sales related transactions of the consolidated entity.

10 Other financial assets

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Non-current					
Investments in controlled entities – unlisted shares and units at cost	21	-	-	13,287,558	13,287,558
Provision for diminution in investments		-	-	(6,829,530)	(9,762,539)
		-	-	6,458,028	3,525,019
Investment in associate – unlisted shares at cost	23	1,108,852	1,108,852	-	-
Provision for diminution in investments		(1,108,852)	(1,108,852)	-	-
		-	-	-	-
		-	-	6,458,028	3,525,019

	Consolidated			The Company	
	2005	2004		2005	2004
	$	$		$	$
11 Inventories					
Current					
■ Raw materials and stores - at cost	144,257	151,112		1,076	4,309
■ Work in progress - at cost	77,807	37,556		-	-
■ Finished goods - at cost	2,398,711	11,519		-	-
	2,620,775	200,187		1,076	4,309
12 Property, plant and equipment					
Freehold land – at cost	1,794,580	1,794,580		-	-
Buildings and freehold improvements – at cost	3,338,029	3,304,923	3, 30 4, 92 3	-	-
Accumulated depreciation	(773,795)	(691,083)		-	-
	2,564,234	2,613,840		-	-
Plant and equipment - at cost	18,117,099	17,282,566		133,687	114,377
Accumulated depreciation	(14,567,351)	(13,531,349)		(37,542)	(14,876)
	3,549,748	3,751,217		96,145	99,501
Office equipment and fixtures - at cost	267,027	219,678		191,042	146,641
Accumulated depreciation	(223,328)	(196,011)		(153,742)	(130,437)
	43,699	23,667		37,300	16,204
Motor vehicles - at cost	115,726	131,426		48,744	48,744
Accumulated depreciation	(79,514)	(75,976)		(32,940)	(25,688)
	36,212	55,450		15,804	23,056
Leased vehicles and machinery - at cost	268,553	172,062	17 2, 06 2	233,602	172,062
Accumulated amortisation	(73,932)	(47,426)		(73,481)	(47,426)
	194,621	124,636		160,121	124,636
Total property, plant and equipment - net book value	8,183,094	8,363,390		309,370	263,397

12 Property, plant and equipment (cont'd)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2005 $	The Company 2005 $
Freehold land		
Carrying amount at beginning and end of year	1,794,580	-
Buildings and freehold improvements		
Carrying amount at beginning of year	2,613,840	-
Additions	33,106	-
Depreciation	(82,712)	-
Carrying amount at end of year	2,564,234	-
Plant and equipment		
Carrying amount at beginning of year	3,751,217	99,501
Additions	834,022	18,800
Depreciation	(1,035,491)	(22,156)
Carrying amount at end of year	3,549,748	96,145
Office equipment and fixtures		
Carrying amount at beginning of year	23,667	16,204
Additions	47,681	44,733
Disposals/retirements	(331)	(331)
Depreciation	(27,318)	(23,306)
Carrying amount at end of year	43,699	37,300
Motor vehicles		
Carrying amount at beginning of year	55,450	23,056
Disposals/retirements	(2,827)	-
Depreciation	(16,411)	(7,252)
Carrying amount at end of year	36,212	15,804
Leased vehicles and machinery		
Carrying amount at beginning of year	124,636	124,636
Additions	96,491	61,540
Amortisation	(26,506)	(26,055)
Carrying amount at end of year	194,621	160,121

12 Property, plant and equipment (cont'd)

Valuation of land and buildings

An independent valuation was carried out on 15 August 2003 by Mr JR Harrington AAPI Certified Practising Valuer on the land and buildings located at Tomago, NSW. The valuation was made on "market value" basis. The directors are of the opinion that this basis provides a reasonable estimate of recoverable amount. The property was valued at $1,300,000, $316,389 above its net book value.

An independent valuation was carried out on 30 June 2002 by Mr WG Bramall, FAPI, AREI on the land and buildings located at Unanderra, NSW. The valuation was made on "specialised assets" basis. Specialised assets are those not normally traded in any market except as part of a total enterprise by reason of this specific design, size, location or other factors. The assessment of specialised owner-occupied assets controlled by the consolidated entity is made on the assumption that the consolidated entity will continue in operation or existence for the foreseeable future. The property was valued at $4,100,000, $675,191 above its net book value.

Capital gains tax has not been recognised in determining the valuation of land and buildings. Capital gains tax would not be payable if the assets were sold at reporting date.

As land and buildings are recorded at cost, the valuation has not been brought to account.

	Consolidated		The Company	
	2005 $	2004 $	2005 $	2004 $
13 Exploration, evaluation and development expenditure				
Costs carried forward in respect of an area of interest in the exploration stage:				
Purchase consideration	240,000	240,000	-	-
Exploration and evaluation expenditure capitalised	132,418	62,199	-	-
	372,418	302,199	-	-

The ultimate recoupment of costs carried forward for exploration phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

14 Intangible assets

	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Hydroproc process - at cost	2,217,323	2,217,323	-	-
Accumulated amortisation	(1,798,577)	(1,553,933)	-	-
	418,746	663,390	-	-

The Hydroproc process is the technology applied by the consolidated entity in its operations.

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $

15 Payables

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Current					
Trade creditors		1,462,584	1,029,781	232,874	296,231
Other creditors and accruals		2,506,248	414,543	327,676	276,592
Unearned income		127,643	254,022	28,728	-
		4,096,475	1,698,346	589,278	572,823

16 Interest bearing liabilities

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Current					
Lease liabilities	22	54,057	72,801	34,817	60,476
Debentures		700,000	-	-	-
		754,057	72,801	34,817	60,476
Non-current					
Debentures		400,000	1,800,000	-	-
Convertible notes	18	-	800,000	-	800,000
Lease liabilities	22	126,047	80,623	89,570	54,857
		526,047	2,680,623	89,570	854,857

Finance lease facility

The consolidated entity's lease liabilities are secured by the leased assets of $194,621 (2004: $124,636), as in the event of default, the assets revert to the lessor.

Non-cash financing and investment activities

During the finance year, the consolidated entity acquired motor vehicles with an aggregate fair value of $96,491 (2004: nil) by means of finance leases. These acquisitions are reflected in the statement of cash flows as proceeds from borrowings.

Debentures

The debentures were issued on 26 March 2003 ($500,000), 30 May 2003 ($100,000) 18 June 2003 ($100,000), 22 September 2003 ($100,000) and 24 October 2003 ($300,000). The face value of each debenture is $1. The debentures have a term of three years from the date of issue, and attract an interest rate of 12% 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 and its controlled entities.

17 Provisions

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Current					
Employee benefits	24	415,054	367,578	208,041	165,205
Disposal of residues	25(a)	501,908	535,533	-	-
		916,962	903,111	208,041	165,205
Non-current					
Employee benefits	24	98,679	118,563	51,762	61,632
Site clean up	25(a)	560,000	560,000	-	-
		658,679	678,563	51,762	61,632

Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits are set out below:

	Consolidated 2005 $	The Company 2005 $
Disposal of residues – current		
Carrying amount at beginning of year	535,533	-
Payments made during the period	(33,625)	-
Carrying amount at end of year	501,908	-
Site clean up – non current		
Carrying amount at beginning of year	560,000	-
Payments made during the year	-	-
Carrying amount at end of year	560,000	-

	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
18 Contributed equity				
Share capital				
295,131,585 (2004: 270,131,585) ordinary shares, fully paid	64,000,126	63,000,126	64,000,126	63,000,126
1,000,000 redeemable convertible notes - equity portion	-	200,000	-	200,000
	64,000,126	63,200,126	64,000,126	63,200,126
Movements during the year				
Ordinary shares				
Balance at the beginning of year	63,000,126	63,000,126	63,000,126	63,000,126
Shares issued				
■ 25,000,000 (2004: nil) from the conversion of redeemable convertible notes	1,000,000	-	1,000,000	-
Balance at end of year	64,000,126	63,000,126	64,000,126	63,000,126
Redeemable convertible notes				
Balance at the beginning of year	200,000	-	200,000	-
Convertible notes issued				
■ 1,000,000 redeemable convertible notes issued on 19 November 2003 - equity portion	-	200,000	-	200,000
■ 1,000,000 (2004: nil) redeemable convertible notes converted to ordinary shares - equity portion	(200,000)	-	(200,000)	
Balance at end of year	-	200,000	-	200,000

25,000,000 (2004: nil) ordinary shares were issued during the year under the conversion of $1,000,000 redeemable convertible notes.

Terms and conditions

Ordinary shares

The voting rights attaching to the ordinary shares are set out in Rule 11.15 of the Company's Constitution.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after convertible note holders and creditors and are fully entitled to any proceeds of liquidation.

18 Contributed equity (cont'd)

Options

Directors' options

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.

Employees' options

On 8 March 2004, the Company provided 30 employees to receive 5,315,000 options over ordinary shares for no consideration. Each option is convertible to one ordinary share at the exercise price of 8 cents per share. The options could not be exercised before 16 February 2005 and expire on 16 February 2007.

On allotment the shares will be fully paid up to the exercise price and will rank equally with all other fully paid ordinary shares.

No options were exercised during the year.

Convertible notes

During November and December 2003 the Company issued 1,000,000 convertible notes at a principal value of $1. On 17 December 2004 all the convertible notes were converted to 25,000,000 fully paid ordinary shares.

	Note	Consolidated		The Company	
		2005 $	2004 $	2005 $	2004 $
The proceeds received were accounted for as follows:					
Non-current interest bearing liabilities	16	-	800,000	-	800,000
Contributed equity		-	200,000	-	200,000
Total		-	1,000,000	-	1,000,000

19 Reserves

	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
General reserve	150,000	150,000	150,000	150,000
Asset revaluation reserve	355,688	355,688	-	-
Total reserves	505,688	505,688	150,000	150,000

There has been no movement in reserves during the past financial year.

Nature and purpose of reserves

General

The amount standing to the credit of the general reserve resulted from prior period allocations of retained profits for non-specific purposes.

Asset revaluation

The asset revaluation reserve includes the increment arising from the revaluation of freehold land and buildings in the financial year ended 30 June 1996. The asset revaluation reserve is not available for future asset write-downs as a result of using the deemed cost election for land and buildings when adopting the revised AASB 1041.

20 Accumulated losses

	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Accumulated losses at beginning of year	(55,632,905)	(54,643,250)	(58,568,914)	(58,061,566)
Net profit/(loss) attributable to members of the parent entity	2,021,272	(989,655)	2,355,160	(507,348)
Accumulated losses at end of year	(53,611,633)	(55,632,905)	(56,213,754)	(58,568,914)

21 Particular in relation to controlled entities

Name	Note	Consolidated entity interest 2005 %	Consolidated entity interest 2004 %
Parent entity			
HydroMet Corporation Limited			
Controlled entities			
■ HydroMet Operations (Southern) Limited	(i)	100	100
■ HydroMet Technologies Pty Limited		100	100
■ HydroMet Operations (NT) Pty Limited	(i)	100	100
■ HydroMet Operations (Tasmania) Pty Limited	(i)	100	100
■ Mineral Estates Pty Limited		100	100
Subsidiaries of which are:			
- MinMet Operations Pty Limited		100	100
- Kia Pacific Gold Pty Limited		100	100
■ HydroMet Operations Limited	(i)	100	100
Subsidiary of which is:			
- Enviromet Operations Pty Limited	(i)	100	100
■ MinMet Unit Trust	(ii)	100	100
■ Hydromet Corporation Debenture Nominees Pty Limited	(i)	100	100

Notes

(i) refer to Note 32 for details of Deed of Cross Guarantee.

(ii) Mineral Estates Pty Limited owns 51% of the units of the MinMet Unit Trust. The balance of 49% is owned by HydroMet Operations Limited. MinMet Unit Trust is the beneficial owner of the consolidated entity's operating site in Tomago, NSW.

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $

22 Commitments

Finance lease payment commitments

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Finance lease commitments are payable:					
■ within one year		66,884	84,548	42,771	68,021
■ one year or later and no later than five years		143,318	82,871	101,840	53,949
		210,202	167,419	144,611	121,970
Less: Future lease finance charges		(30,098)	(13,995)	(20,224)	(6,637)
		180,104	153,424	124,387	115,333
Lease liabilities provided for in the financial statements:					
■ Current	16	54,057	72,801	34,817	60,476
■ Non-current	16	126,047	80,623	89,570	54,857
Total lease liability		180,104	153,424	124,387	115,333

The consolidated entity leases vehicles and plant and equipment under various leases expiring from one to five years. At the end of the lease terms, the consolidated entity will purchase the assets at fixed percentages of original cost. The end of term residual values are included in the total finance lease payment commitments.

23 Investment in associated companies

Interest is held in the following associated company:

Name	Principal activities	Balance date	Ownership interest 2005 %	Ownership interest 2004 %	Investment carrying amount 2005 $	Investment carrying amount 2004 $
HydroMet (India) Limited	Chemical manufacturer	31 March	23	23	-	-

The equity method has not been applied in respect of the consolidated entity's interest in HydroMet (India) Limited. The company incurred losses in previous years and the carrying amount of this investment has been written down to zero.

The aggregate amount receivable from HydroMet (India) Limited by the consolidated entity at balance date was $194,510 (2003: $194,510). A doubtful debt provision on the loan of $194,510 (2003: $194,510) has been made.

24 Employee benefits

	Note	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Aggregate liability for employee entitlements, including on-costs					
Employee benefits provision					
■ Current	17	415,054	367,578	208,041	165,205
■ Non-current	17	98,679	118,563	51,762	61,632
		513,733	486,141	259,803	226,837

The present values of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages:

	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
Assumed rate of increase in wage and salary rates	4%	4%	4%	4%
Discount rate	5.07%	5.95%	5.07%	5.95%
Settlement term (years)	10	10	10	10

Number of employees

	Consolidated 2005	Consolidated 2004	The Company 2005	The Company 2004
Number of employees at year end	50	58	14	14

Superannuation commitments

The Consolidated Entity contributes to several defined contribution plans for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees.

The Consolidated Entity has no interest in these superannuation plans (other than as a contributor) and is not liable for the performance of the plans, nor the obligations of the plans.

Employee share options plan

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.

24 Employee benefits (cont'd)

On 8 March 2004, the Company provided 30 employees to receive 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.

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.

Summary of options over unissued ordinary shares:

Grant dates	Opening balance	Granted during the year	Closing balance	Vested and exercisable at 30 June 2005
8 March 2004	5,315,000	-	5,315,000	5,315,000

25 Contingent liabilities

Details of contingent liabilities where the probability of future payments is considered remote are set out below.

(a) Environmental contingent liabilities

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 at 30 June 2005. Refer Note 17 for provision details. 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 future obligations to meet changing environmental legislation could involve the consolidated entity in costly work. The directors are not aware of any impending changes to the requirements or of any current breaches of legislation which are material in nature.

(b) Deed of Cross Guarantee

Under the terms of a Deed of Cross Guarantee, described in Note 32, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up.

(c) Indemnities

Indemnities have been provided to directors of the consolidated entity in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements.

26 Segment information

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.

27 Events subsequent to reporting date

Option agreement to sell Stanton Prospect

The option agreement that the Company entered into in July 2004 to sell the Stanton Cobalt-Nickel Mineralisation Prospect (EL23531) in the Northern Territory has expired in July 2005 and has not been exercised by the holder. The Company is exploring alternatives to develop or divest the Prospect.

Issue of shares

On 1 August 2005 the Company had 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. The Company believes the release of the mining mortgage will be valuable to the future development or divestment of the Prospect.

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australian equivalents to International Financing Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 33 to the financial statements.

28 Director and executive disclosures

(a) *Remuneration of specified directors and specified executives*

Remuneration levels for directors and senior executives are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Audit and Remuneration Committee considers the appropriateness of remuneration packages, given trends in comparative companies locally and the objectives of the Company's remuneration strategy.

The remuneration 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 remuneration structures take into account:

- the capability and experience of the directors and senior executives
- the directors and senior executives ability to control the relevant operations' performance
- the consolidated entity's performance including:
  - the consolidated entity's earnings
  - the growth in share price and returns on shareholder wealth

Remuneration packages include fixed remuneration and long-term incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (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.

Remuneration levels are reviewed annually by the Audit and Remuneration Committee through a process that considers individual, operational and overall performance of the consolidated entity. A senior executive's remuneration 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 ordinary share options for no consideration. 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.

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 and payment of insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, and the Company pays fringe benefits tax on these benefits, if applicable.

(a) Remuneration of specified directors and specified executives (cont'd)

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 remuneration for all non-executive directors, last voted upon by shareholders at the 2004 AGM, are not to exceed $200,000 per annum and are set based on reference to fees paid to other no-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 controlling entities. The Chairperson and committee members receive no extra fees. Directors' fees cover all main board activities and membership of 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. Details of these services are set out on note 28(c). The Company has no schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

28 Director and executive disclosures

(a) Remuneration of specified directors and specified executives (cont'd)

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 remuneration of each director of the Company ("specified directors") are:

		Primary		Post-employment	Equity compensation	Other compensation	
		Salary & fees $	Non-monetary benefits $	Super-annuation benefits $	Value of Options (i) $	Insurance Premium (ii) $	Total $
Directors							
Non-executive							
Mr SH Kwan	2005	25,000	-	2,250	-	8,362	35,612
	2004	25,000	-	2,250	-	13,225	40,475
Mr TR Allen	2005	33,884	-	3,399	-	8,362	45,645
	2004	25,000	-	4,979	-	13,225	43,204
Mr SB Wolfe	2005	25,000	-	2,250	-	8,362	35,612
	2004	10,417	-	938	-	4,935	16,290
Executive							
Dr LD Jayaweera	2005	172,499	36,085	15,525	-	8,362	232,471
Chairperson	2004	159,998	33,951	12,000	-	13,225	219,174
Mr GW Wrightson	2005	181,249	17,776	22,896	-	8,362	230,283
Managing Director	2004	188,460	21,647	15,162	-	13,225	238,494
Mr PS Tang (iii)	2005	92,028	25,874	8,633	-	8,362	134,897
Finance Director	2004	25,000	-	2,250	-	13,225	40,475
Total, all	2005	529,660	79,735	54,953	-	50,172	714,520
specific directors	2004	433,875	55,598	37,579	-	71,060	598,112

(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 1,000,000 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 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

28 Director and executive disclosures

(a) *Remuneration of specified directors and specified executives (cont'd)*

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 these 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.

(iii) Mr. Tang was appointed Finance Director in August 2004.

(b) *Equity instruments*

All options refer to options over ordinary shares of Hydromet Corporation Limited, which are exercisable on a one-for-one basis under the terms of the options issued.

Options and rights over equity instruments granted as remuneration

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 specified director, including their personally-related entities, is as follows:

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

No options have been granted, exercised or expired during and since the end of the financial year.

No options held by specified directors are vested but not exercisable.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Hydromet Corporation Limited held, directly, indirectly or beneficially, by each specified director, including their personally-related entities is as follows:

	Held at 1July 2004	Purchases	Received on conversion of convertible notes	Held at 30 June 2005
Specified directors				
Mr SH Kwan	46,000	-	-	46,000
Mr PS Tang	80,000	-	-	80,000
Mr TR Allen	2,300,000	-	-	2,300,000
Mr GW Wrightson	578,300	-	-	578,300
Dr LD Jayaweera	13,608,250	4,483,235	-	18,091,485
Mr SB Wolfe	-	-	25,000,000	25,000,000

28 Director and executive disclosures (cont'd)

(c) Other transactions with the Company or its controlled entities

A number of specified directors or their personally-related entities, 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 those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities, on an arm's length basis.

The aggregate amounts recognised during the year relating to specified directors and their personally-related entities, were total expense of $185,707. Details of the transactions are as follows:

	Transaction	Note	$
Specified directors			
Mr PS Tang	Secretarial and consulting fees	(i)	20,250
Mr TR Allen	Consulting fees	(ii)	6,820
Mr SB Wolfe	Inventory purchases	(iii)	111,770
Mr SB Wolfe	Consulting fees	(iv)	46,867

(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 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. 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 services of a related entity to Mr SB Wolfe to prepare a feasibility study and subsequent negotiation to acquire a specific asset.

Liabilities arising from the above transactions as at 30 June 2005:

	30 June 2005 $
Current Liabilities	
Payable	42,303

28 Director and executive disclosures (cont'd)

(d) *Directors' transactions in convertible notes*

During November and December 2003 the Company issued 1,000,000 convertible notes at a principal value of $1 to Tennant (2000) Pty Limited, a director related entity of Mr SB Wolfe. On 17 December 2004 all the convertible notes were converted to 25,000,000 fully paid ordinary shares. The interest paid to Tennant (2000) Pty Limited during the financial year was $42,829 (2004: $64,243).

There were no assets and liabilities arising from the above transactions as at 30 June 2005.

(e) *Directors' transactions in loan*

On 20 August 2003 Chemmet Pty Limited, a director related entity of Dr. LD Jayaweera, subscribed $500,000 debentures issued by the Company. The face value of each debenture is $1. The debentures have a term of three years from the date of issue, and attract an interest rate of 12% 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 and its controlled entities. The interest paid and payable to Chemmet Pty Limited during the financial year was $56,054 (2004: $51,780). The debentures were redeemed on 6 June 2005 under the voluntarily early redemption offered to all debenture holders.

On 3 February 2003 Lenvat Pty Limited, a director related entity of Mr. TR Allen, subscribed $200,000 debentures issued by the Company. The face value of each debenture is $1. The debentures have a term of three years from the date of issue, and attract an interest rate of 12% 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 and its controlled entities. The interest paid and payable to Lenvat Pty Limited during the financial year was $22,027 (2004: $9,732). The debentures were redeemed on 31 May 2005 under the voluntarily early redemption offered to all debenture holders.

There were no assets and liabilities arising from the above transactions as at 30 June 2005.

29 Non-director related parties

The classes of non-director related parties are:

- wholly owned controlled entities (refer Notes 21); and
- associates (refer Notes 10 and 23).

Transactions

All transactions with non-director related parties are on normal terms and conditions.

Wholly-owned group

Details of interests in wholly-owned controlled entities are set out at Note 21. Details of dealings with these entities are set out below:

29 Non-director related parties (cont'd)

Loans

Loans between entities in the wholly-owned group are interest free and repayable on demand. The aggregate amounts receivable from/payable to wholly-owned controlled entities of the Company at reporting date are:

	The Company	
	2005	2004
	$	$
Non-current		
Loans receivable	8,793,900	7,022,654
Loans payable	10,263,735	6,047,769

Loans receivable

Balance at the beginning of the year	7,022,654	7,449,027
Write back/(additional) provision for loan	976,221	(1,483,731)
Increase in loans to controlled entities	795,025	1,057,358
Balance at the end of year	8,793,900	7,022,654

Loans payable

Balance at the beginning of the year	6,047,769	4,449,509
Increase in loans from controlled entities	4,215,966	1,598,260
Balance at the end of year	10,263,735	6,047,769

30 Additional financial instruments disclosure

(a) *Interest rate risk exposures*

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rates for classes of financial assets and financial liabilities is set out below:

	Note	Weighted avg interest rate	Floating interest rate	Fixed interest maturing in: 1 year or less	Fixed interest maturing in: 1 to 5 years	Non-interest bearing	Total
2005			$	$	$	$	$
Financial assets							
Cash	31(a)	5.18%	3,442,403	-	-	-	3,442,403
Receivables	9	-	-	-	-	2,808,965	2,808,965
			3,442,403	-	-	2,808,965	6,251,368
Financial liabilities							
Payables	15	-	-	-	-	3,968,832	3,968,832
Lease liabilities	16,22	8.4%	-	54,057	126,047	-	180,104
Debentures	16	12%	-	700,000	400,000	-	1,100,000
			-	754,057	526,047	3,968,832	5,248,936
2004							
Financial assets							
Cash	31(a)	3.8%	1,262,046	-	-	-	1,262,046
Receivables	9	-	-	-	-	3,315,141	3,315,141
			1,262,046	-	-	3,315,141	4,577,187
Financial liabilities							
Payables	15	-	-	-	-	1,444,324	1,444,324
Lease liabilities	16,22	8.7%	-	72,801	80,623	-	153,424
Debentures	16	12%	-	-	1,800,000	-	1,800,000
Convertible notes		9.25%	-	-	1,000,000		1,000,000
			-	72,801	2,880,623	1,444,324	4,397,748

30 Additional financial instruments disclosure (cont'd)

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk of financial assets, excluding investments, of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity was materially exposed to four customers at balance date. The exposure as a percentage of trade debtors:

- Lewer Corporation 39.1%
- Smorgon Steel 25.8%
- One Steel NSW Pty Ltd 10.6%
- Exide Technologies 10.1%

(c) Net fair values of financial assets and liabilities

The net fair values of financial assets and liabilities approximate their carrying amounts.

31 Notes to the statements of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Consolidated		The Company	
	2005 $	2004 $	2005 $	2004 $
Short term deposits	3,442,403	1,262,046	3,078,644	708,073
Total cash held	3,442,403	1,262,046	3,078,644	708,073

Security over cash

A term deposit for $250,000 has been issued as security in respect of a bank guarantee issued to a customer and not available to be used by the consolidated entity.

31 Notes to the statements of cash flows (cont'd)

(b) Reconciliation of profit/(loss) from ordinary activities after income tax to net cash provided by/(used in) operating activities

	Consolidated 2005 $	Consolidated 2004 $	The Company 2005 $	The Company 2004 $
Profit/(Loss) from ordinary activities after income tax	2,021,272	(989,655)	2,355,160	(507,348)
Add/(less) non-cash items:				
■ Amortisation	271,150	266,851	-	-
■ Depreciation	1,161,933	1,223,531	78,769	51,075
■ Retirement of fixed assets	331	76,718	331	2,592
■ Write back provision for investment	-	-	(2,933,009)	(2,111,481)
■ (Write back)/additional provision for loans to controlled entities	-	-	(976,221)	1,483,731
Add/(less) items classified as investing/financing activities:				
■ Lease payments	16,135	15,934	11,497	10,248
■ Profit on sales of property, plant and equipment	(4,673)	-	-	-
Net cash provided by/(used in) operating activities before changes in assets and liabilities	3,466,148	593,379	(1,463,473)	(1,071,183)
Changes in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
■ (Increase)/decrease in inventories	(2,420,588)	134,621	3,233	(4,309)
■ Decrease/(increase) in receivables	506,176	(1,946,476)	487,965	(998,558)
■ Increase in payables	2,398,129	116,860	16,455	488,313
■ (Decrease)/increase in provisions	(6,033)	(358,948)	32,966	(81,330)
Net cash provided by/(used in) operating activities	3,943,832	(1,460,564)	(922,854)	(1,667,067)

32 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 2001, 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) Pty Limited;
- Hydromet Operation (NT) Pty Limited;
- Enviromet Operations Pty Limited; and
- Hyrdomet Corporation Debenture Nominees Pty Limited.

A consolidated statement of financial performance and consolidated statement of financial position, 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 2005 is set out on the following page.

32 Deed of cross guarantee (cont'd)

	Consolidated 2005 $	Consolidated 2004 $
Statement of financial performance		
Profit/(Loss) from ordinary activities before related income tax expense	2,405,384	(307,491)
Income tax expense relating to ordinary activities	(51,462)	(33,182)
Profit/(Loss) from ordinary activities after related income tax expense	2,353,922	(340,673)
Accumulated losses at beginning of the year	(55,965,299)	(55,624,626)
Accumulated loss at the end of the year	(53,611,377)	(55,965,299)
Statement of financial position		
Cash assets	3,385,180	999,332
Receivables	1,609,126	1,845,385
Inventories	92,420	117,492
Total current assets	5,086,726	2,962,209
Receivables	-	831,480
Investments	9,897,914	3,808,526
Property, plant and equipment	6,201,555	6,689,714
Intangibles	418,746	663,390
Total non-current assets	16,518,215	11,993,110
Total assets	21,604,941	14,955,319
Accounts payable	1,600,147	1,240,814
Interest bearing liabilities	48,829	72,801
Provisions	572,135	530,474
Total current liabilities	2,221,111	1,844,089
Interest bearing liabilities	1,201,324	2,880,623
Provisions	84,614	104,228
Other liabilities	7,203,455	2,585,864
Total non-current liabilities	8,489,393	5,570,715
Total liabilities	10,710,504	7,414,804
Net assets	10,894,437	7,540,515
Contributed equity	64,000,126	63,000,126
Reserves	505,688	505,688
Accumulated losses	(53,611,377)	(55,965,299)
Total equity	10,894,437	7,540,515

33 Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Board has established a formal implementation project, monitored by the Finance Director, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed as at 30 June 2005.

Design phase

The design phase formulates the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase included various project personnel working on areas such as application of impairment requirements and transitional elections.

The design phase incorporated:

- Formulating revised accounting policies and procedures for compliance with AIFRS requirements.
- Identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS.
- Development of revised AIFRS disclosures.
- Formulation of accounting and business processes to support AIFRS reporting obligations.

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

- Identification of required changes to financial reporting and business source systems.
- Development of training programs for staff.

The design phase is completed as at 30 June 2005.

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the Consolidated Entity to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

This phase is substantially completed as at 30 June 2005.

Impact of transition to AIFRS

The impact of transition to AIFRS, including the application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report being the half-year ending 31 December 2005. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and Consolidated Entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

Due to the ongoing changes in interpretations and opinions regarding the adoption of AIFRS, it is possible that the following estimates and assumptions may change prior to the production of the groups opening AIFRS balance sheet and transition adjustments.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- Changes in financial reporting requirements that are relevant to the Company's and Consolidated Entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report.
- Additional guidance on the application of AIFRS in a particular industry or to a particular transaction.
- Changes to the Company's and Consolidated Entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

(a) Property, plant and equipment

Property, plant and equipment will be measured at cost under AIFRS. However, as permitted by the election available under AASB 1, at transition date certain items of property, plant and equipment are expected to be recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of the revaluation.

For the consolidated entity, at 1 July 2004 the carrying amount of land and buildings are expected to be increased by $991,580. This revaluation adjustment will be recorded against retained earnings. The increase in value of land and buildings will be applied to the land component. As a result, the increase in land value will not have an impact on depreciation for the year ended 30 June 2005. No adjustments are expected for the Company.

Any asset revaluation reserve balance relating to land and building will be derecognised at transition date and adjusted against retained earnings. For the consolidated entity, at 1 July 2004 an amount of $355,688 is expected to be reclassified from asset revaluation reserve to retained earnings. No adjustments are expected for the Company. As this adjustment will not change the carrying value of property, plant and equipment, there will be no impact on depreciation for the year ended 30 June 2005.

Under AIFRS 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 consolidation received as revenue. For the consolidated entity an amount of $2,827 is expected to be reclassified from revenue to other expenses for the financial year ended 30 June 2005. No adjustment is expected for the Company.

(b) Business combinations

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 then subject to the other requirements of AASB 1, as discussed.

(c) Other Intangible assets – Hydroproc Process

Hydroproc Process acquired will be stated at cost less accumulated amortisation and impairment losses.

On transition, the Hydroproc Process is being reviewed to ensure it is capable of recognition under AASB 138 *Intangible Assets* and tested for impairment. No reclassifications or impairment losses are expected.

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

Amortisation will be recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested for impairment annually. Other intangible assets will be amortised from the date they are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively.

The intangible asset will be allocated to cash generating units and tested annually for impairment (refer to (e) for further details on impairment testing).

The estimated useful lives for 1 July 2004 are expected to be as follows:

	AIFRS	Current AGAAP
Hydroproc process	indefinite	20 years

The impact on the results for the year ended 30 June 2005 is expected to be an increase of $244,644 from the reversal of the amortisation of intangible for the consolidated entity. No adjustment is expected for the Company.

(d) Research and development

Under AIFRS expenditure on research activities will be expensed as incurred whereas under current Australian GAAP certain research costs are included within development projects and therefore capitalised.

Under AIFRS, expenditure on development activities must be capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses.

On transition and as at 30 June 2005, no research expenditure has been capitalised under current Australian GAAP and no development activities were undertaken by the Consolidated Entity. There is no expected impact for the Consolidated Entity and the Company.

(e) Impairment

Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis, other than exploration and evaluation expenditure carried forward, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under current Australian GAAP the collectibility of receivables is assessed at each reporting date and a provision is raised based on the age of the outstanding overdue balance to allow for doubtful accounts.

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding investment property, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Intangible assets that have an indefinite useful life and intangible assets not yet ready for use are tested for impairment annually.

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

Calculation of recoverable amount

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows. Under AIFRS the recoverable amount of the consolidated entity's held-to-maturity securities and receivables carried at amortised cost will be 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.

The recoverable amount of other assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance or expected to arise from future restructuring not yet committed to at testing date.

For the consolidated entity an impairment loss of $2,970,989 allocated to the assets in the cash generating units on pro rata basis based on their carrying amounts is expected to be recognised as a decrease in retained earnings arising due to the more rigorous impairment test under AIFRS, performed at a lower level than under current Australian GAAP. There is no impact expected for the Company. As the carrying amount of these assets will be changed, the depreciation charges will be decreased by $789,070 in the income statement for the financial year ended 30 June 2005.

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

Reversals of impairment

Under current Australian GAAP impairment losses have not been reversed.

Under AIFRS an impairment loss in respect of other assets will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be 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.

There is no expected impact of this change in treatment on transition.

(f) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

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

The new method will recognise deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. It is expected that there will be some increase in the levels of deferred tax assets and liabilities.

A deferred tax asset will be 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 will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The UIG is currently deliberating the recognition of tax amounts under the tax consolidation regime in the AIFRS framework. It is currently proposed that wholly owned subsidiaries in the tax consolidated group will be required to recognise their own tax balances directly, and the current tax liability or asset will be assumed by the head entity via an equity contribution or distribution.

As the interpretation regarding the tax consolidation regime is yet to be issued, the impact of any change has not been quantified.

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

(g) Make good provision

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 its 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.

Under current Australian GAAP the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the operations, measured at the expected cost of refurbishment at each reporting date.

Under the current arrangements with the clients, we are unable to estimate the period of these on-site operations and the residual value of the equipment installed in these sites. At 1 July 2004 a provision for make good costs associated with these operations of $250,000 is expected to be recognised in the consolidated entity and $50,000 in the Company. There is no impact expected for the Consolidated Entity and the Company during the 30 June 2005 financial year.

(h) Share based payments

Under current Australian GAAP, no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options.

The fair value of options granted will be measured using the Black-Scholes Option Pricing model, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

On transition and as at 30 June 2005, no adjustment has been made to the Company's statement of financial position to reflect the granting of share options to directors and employees. The options granted to directors and employees during the 30 June 2003 and 30 June 2004 financial periods have been valued at a fair value of $Nil on the basis of the valuation undertaken for the directors options issued on 19 December 2002.

(i) Earnings per share

Under AIFRS basic and diluted earnings per share are calculated using the profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity.

As we have been unable to quantify the impacts on taxation of adoption of AIFRS, we are unable to quantify the impacts of adoption of AIFRS on basic and diluted earnings per share.

The basic and diluted earnings per share for the financial year ending 30 June 2005 will be calculated on the AIFRS adjusted results and disclosed in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

(j) Financial instruments

Hydromet Corporation Limited expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies.

Debt establishment costs expensed will be recalculated based on effective interest rate method and recognised as part of the liability. At the date of transaction, the Consolidated Entity is expected to result in a decrease in interest bearing liabilities of $29,162 and a decrease in retained losses of $29,162. For the year ended 30 June 2005 the expected adjustment would have been an increase in interesting bearing liabilities of $22,289 and an increase in interest expenses of $22,289. No adjustment is expected for the Company.

Directors' declaration

1 In the opinion of the directors of HydroMet Corporation Limited ("the Company"):

(a) the financial statements and notes including the remuneration disclosures that are contained in the Remuneration report on pages 16 to 19 of the Directors' report, set out on page 29 to 81, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

(iii) 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 32 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 Corporation Act 2001 from the managing director and the finance director for the financial year ended 30 June 2005.

Signed in accordance with a resolution of the directors:

Gregory Wrightson
Managing Director

Dated at Wollongong this 6th day of September 2005.

Independent audit report to members of Hydromet Corporation Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes 1 to 33 to the financial statements, and the directors' declaration for both Hydromet Corporation Limited (the "Company") and Hydromet Corporation Limited and its controlled Entities (the Consolidated Entity"), for the year ended 30 June 2005. The Consolidated Entity comprises both the company and the entities it controlled during that year.

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.

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. 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, and of their performance as represented by the results of their operations and cash flows.

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

In our opinion, the financial report of Hydromet Corporation Limited 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 2005 and of their performance for the financial year ended on that date; and

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

b) other mandatory professional reporting requirements in Australia.

KPMG

Warwick Shanks
Partner

Sydney
Dated the 6th day of September 2005

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 2005)

Substantial shareholders

The number of shares held by the substantial shareholders are set out below:

Shareholder	Ordinary
Tennant (2000) Pty Limited	25,000,000
National Nominees Limited	19,242,443
Chemmet Pty Limited	16,511,585

Voting rights

Ordinary shares

Refer to Note 18.

Options

Refer to Note 18.

Redeemable convertible notes

Refer to Note 18.

Distribution of equity security holders

	Number of equity security holders		
Category	Ordinary shares	Directors' Options	Employees' options
1 - 1,000	304	-	-
1,001 - 5,000	367	-	-
5,001 - 10,000	194	-	-
10,001 - 100,000	989	-	11
100,001 and over	383	5	19
	2,237	5	30

The number of shareholders holding less than a marketable parcel is 759.

On-market buy-back

There is no current on-market buy-back.

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
1 Tennant (2000) Pty Limited	25,000,000	8.47
2 National Nominees Limited	19,242,443	6.52
3 Chemmet Pty Limited	16,511,585	5.59
4 Picasso Holdings International Limited	8,500,000	2.88
5 Twynam Commodities Pty Limited	7,500,000	2.54
6 Leet Investments Pty Limited	6,100,000	2.07
7 Mrs Selina Wu	5,910,859	2.00
8 Linkenholt Pty Limited (Grant Austin Family A/C)	4,500,000	1.52
9 Leet Investments Pty Ltd <Superannuation Fund A/C>	4,300,000	1.46
10 Merrill Lynch (Australia) Nominees Ltd	3,723,782	1.26
11 Mrs Cherrie Frances Doonan	3,629,615	1.23
12 Chemmet Pty Limited (Super Fund A/C)	3,510,000	1.19
13 International Investments Enterprises Limited	3,417,683	1.16
14 Citicorp Nominees Pty Limited	3,050,377	1.03
15 Rizzo Pty Limited	2,791,000	0.95
16 Mr Gordon Menzies Wilson	2,657,529	0.90
17 Wightholme Nominees Pty Ltd (P F Burke Group S/F A/C)	2,500,000	0.85
18 Sylvan Securities Pty Ltd	2,371,320	0.80
19 Lenvat Pty Ltd Lenvat Super Fund A/C	2,300,000	0.78
20 Mr John Charles Thomas Lee + Ms Anne Lynette Meier <The John Lee Super Fund A/C>	2,270,000	0.77
	129,786,193	43.97

Unquoted equity securities

Directors' options

As at 31August 2005, 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