HYDROMET CORPORATION LIMITED

A.B.N. 71 002 802 646

Processing

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Cleaner

Environment

ANNUAL REPORT

2007

HydroMet

CORPORATION LIMITED

A.B.N. 71 002 802 646

Offices and officers

Principal registered office
Lot 3 Five Islands Road
Unanderra NSW 2526

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

Company Secretary
Mr Pipvide S Tang, MBA, CPA

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

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www.hydromet.com.au

Minmet Operations Pty Limited
25 School Drive
Tomago NSW 2322

Telephone: 02 4964 8266
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Location of share registry
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Computershare Investor Services Pty Limited
Level 3 60 Carrington Street
Sydney NSW 2000

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

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

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Chairperson's report

For the year ended 30 June 2007

On behalf of the directors of Hydromet Corporation Ltd, I am pleased to report a net profit of $ 2.26 million after tax for the year ending 30th June 2007 from total group revenue of $ 19.6 million. I am also pleased to announce that the board also declared a final fully franked dividend of 0.10 cents per ordinary share. The Board's decision to declare a modest dividend at this time is in line with our long term objective to deliver ongoing dividends, as profit improvements continue in future years.

The profit was made possible as a result of successful work carried out to establish a solid and a unique growth strategy for the future benefit of the company.

Today, Hydromet has a strong reputation as a credible experienced processor in the field of industrial waste recycling and hazardous waste management both in Australia and internationally. Over the years, our unique processes which we have developed for the extraction of value added products from complex hazardous metal residues combined with immobilisation technology for the safe disposal of residual wastes to landfill, are gaining world-wide recognition and commercial acceptance.

The processes already developed and commercialised at our Tomago operation to treat metallurgical residues containing selenium, tellurium, copper and precious metals have been attracting a number of customers from the USA, Canada, Europe and South Africa. In the recent years we have been successful in securing long term contracts with these companies with the possibility of extending the agreements for further years. Based on current contracts in hand and with today's strong metal prices, our Tomago operation is in a comfortable position to generate significantly higher cash contribution from the sales of products including selenium, tellurium, precious metals, copper sulphate along with treatment fees earned. Furthermore, as a result of our established track record, we are receiving more inquiries at an international level for our specialised services to treat such residues. We intend to capitalise on this unique opportunity and to grow this business sector as a sustainable contributor to the long term future of Hydromet.

Our recent entry to the lead recycling field in Australia has generated remarkable success with our state of the art Used Lead Acid Battery Recycling plant successfully commissioned and making a strong commercial contribution from January 2007. The plant is currently processing at an annual rate of 12,000 tonnes of batteries. It is our intention to increase our throughput to 36,000 tonnes per year in the financial year 2008. As our existing plant has the design capacity of up to 36,000 tonnes per year, we are in the process of obtaining the necessary regulatory approvals to process at the maximum rate. As we predicted, the lead recycling business has become a significant contributor to Hydromet's core business. At the current processing rate and recent lead pricing we are generating sales revenue from lead products and plastic recovered in excess of $15 million on an annual basis. We expect lead product revenue to significantly increase with the planned increased through-put.

We are also in the process of planning the next growth stage of our lead recycling project which we strongly believe will confirm Hydromet as the leader in this field in Australia.

Our plans include:

- De- sulphating of our lead products to generate a higher revenue premium and a cleaner lead feed for our smelter clients.
- Potential investment in a smelting facility to produce lead bullion/alloys, either locally or offshore.

We have initiated an aggressive plan of action to achieve these targets in the next 2-3 years. It is also expected that the above projects will also significantly increase our net profit margins in the future.

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Chairperson's report (continued)

Outlook for the future and conclusion

Today, Hydromet is in a strong and stable position, the result of considerable effort and planning, deriving healthy sales revenues from a number of project streams including sales of lead, selenium, tellurium, precious metals, copper sulphate, zinc sulphate and treatment fees earned along with consulting fees from services provided. Based on the current favourable economic conditions and future outlook, we anticipate continuous growth and significant improvement in our overall income streams. I expect to see continuing sales revenue growth in the 2008 financial year.

With further strategic expansion of our core business activities into additional value added products which include, production of lead metals through smelting and increased development of our selenium based businesses, HydroMet will continue to firmly establish long term improvements in group revenues and profitability.

We intend to continue to explore other avenues of business expansion either through acquisition or our own ongoing research and development work which remains a valuable contributor to our future growth.

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

We all look forward to a much brighter year ahead.

Dr Lakshman Jayaweera
Chairperson
Date this 28th August 2007

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report
For the year ended 30 June 2007

The directors present their report together with the financial report of Hydromet Corporation Limited (the Company) and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2007 and the auditor's report thereon.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

1. Directors
The directors of the Company at anytime during or since the end of the financial year are:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Dr Lakshman D Jayaweera MSc, PhD Chairperson Executive Director	Dr Jayaweera is one of the founders and the head of the technical team of the Company. He holds a PhD in Chemical Engineering and has considerable experience in mineral processing and hazardous waste recycling. Director since 1991- Deputy Chairperson from September 2000 to January 2001 and appointed Chairperson in January 2001.
Mr Timothy R Allen Deputy Chairperson Independent Non-Executive Director	Mr Allen has extensive engineering and banking experience with qualifications in mining, engineering and economics and is a member of the Securities Institute of Australia. He is also a director of Morning Star Gold NL and Central West Gold NL. Member of Audit and Remuneration Committee. Director since October 2001 - appointed deputy Chairperson in February 2006.
Mr Gregory W Wrightson Managing Director	Mr Wrightson has over 20 years experience in chemical manufacturing and was appointed General Manager of the Company in 1997. Director since 1998 - appointed Managing Director in September 2000.
Mr Stephen H Kwan, MPhil Independent Non-Executive Director	Mr Kwan has over 26 years experience in metals and chemicals trading and is a co-founder of the Kee Shing Group in Hong Kong. Member of the Audit and Remuneration Committee. Director since 1991.
Mr Pipvide S Tang, MBA, CPA Director - Finance	Mr Tang has more than 25 years experience in accounting, corporate finance and administration. He is also a director of Optima ICM Limited. Director from 1991 to 1996. Appointed director in 1997. Mr Tang was a non-executive Director from August 2000 to August 2004.
Mr Stephen B Wolfe, MBA Non-Executive Director	Mr. Wolfe has 20 years experience in the banking, resource, logistic, chemicals and raw materials industries. Member of Audit and Remuneration Committee. Director since February 2004. Resigned as a director on 23 November 2006.

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Directors' report (continued)
For the year ended 30 June 2007

2. Company secretary
Mr. Pipvide S Tang MBA, CPA was appointed to the position of company secretary in April 2003. Mr. Tang was the secretary of the Company from 1991 to 1996. He has over 15 years experience as company secretary of publicly listed companies in Australia and overseas and has held the role of company secretary with another listed public company for the past five years.

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

Director	Board Meetings		Audit and Remuneration Committee Meetings	
	A	**B**	**A**	**B**
Dr LD Jayaweera	5	5	-	-
Mr TR Allen	5	5	2	2
Mr GW Wrightson	5	5	-	-
Mr SH Kwan	4	5	1	2
Mr PS Tang	5	5	-	-
Mr SB Wolfe	2	3	2	2

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

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

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

To fulfil this role, the board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for the operation and administration of the Company to the executive chairperson, managing director and executive management. Responsibilities are delineated by formal authority delegations.

Board processes
To assist in the execution of its responsibilities, the board has established an Audit and Remuneration Committee, which operates under a charter approved by the board. The charter and the operating procedures are reviewed on a regular basis. The board has also established a framework for the management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

4.1 Board of directors (continued)
Board processes (continued)
The full Board currently holds five scheduled meetings each year, plus any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

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

Director education
The Group has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information
Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the chairperson, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

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 5 of this report. The composition of the board is determined using the following principles:

- a minimum of five directors, with a broad range of expertise both nationally and internationally
- a majority of directors 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
- the directors (except for the managing director) are subject to re-election every three years
- enough directors to serve on committee without overburdening the directors or making it difficult for them to fully discharge their responsibilities
- the roles of chairperson and managing director are not exercised by the same director
- the Audit and Remuneration Committee is comprised of non-executive directors.

Due to the size of the Company, resources available and the specialised nature of the Company's business, the Company did not meet Corporate Governance Council recommendations in the following areas:
- the board comprises two independent non-executive directors and three executive directors
- an executive director is the chairperson
- the Audit & Remuneration Committee is responsible for the functions of Nomination Committee and consists of two non-executive directors as members

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

4.1 Board of Directors (continued)
Composition of the board (continued)

An independent director is a director who is not a member of management (a non-executive director) and who:

- hold less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with other shareholders of more than five per cent of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment
- within the last three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another Group member
- is not a material* supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer
- has no material* contractual relationship with the Company or another Group member other than as a director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the director's ability to act in the best interests of the Company

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

4.2 Audit and Remuneration Committee
The Audit and Remuneration Committee has a documented charter, approved by the board. All members must be non-executive directors with a majority being independent. The chairperson may not be the chairperson of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group, the remuneration of executives and directors and the composition of the Board.

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

- Mr. TR Allen (Chairperson) – Independent Non-Executive
- Mr SH Kwan, MPhil, ATI, MBIM - Independent Non-Executive
- Mr. SB Wolfe, MBA – Non-Executive (resigned on 23 November 2006)

The external auditors, the managing director and the director of finance, are invited to audit and remuneration committee meetings at the discretion of the committee. The committee met two times during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 6.

The managing director and the director of finance declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended 30 June 2007 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The external auditor met with the audit and remuneration committee and the board of directors during the year without management being present.

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Directors' report (continued)
For the year ended 30 June 2007

4.2 Audit and Remuneration Committee (continued)
The audit and remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the executive officers and directors themselves of the Company and of other Group executives for the Group. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The audit and remuneration committee also oversees the appointment and induction process for directors and committee members, and the selection, appointment and succession planning process of the Company's managing director. The committee makes recommendations to the board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the committee in consultation with the board determines the selection criteria based on the skills deemed necessary. The committee identifies potential candidates. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The audit and remuneration committee also review annually the effectiveness of the board, individual directors, and senior executives. The other directors have an opportunity to contribute to the review process. The performance criteria takes into account each director's contribution to setting the direction, strategy and financial objectives of the Group, and monitoring compliance with regulatory requirements and ethical standards.

The reviews generate recommendations to the board, which votes on them. The committee's nomination of existing directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the board and the Company. Directors displaying unsatisfactory performance are required to retire.

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

The responsibilities of the audit and remuneration committee include:
- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether the financial information is adequate for shareholder needs
- assessing corporate risk assessment process
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001
- assessing the adequacy of the internal control framework and the Company's code of ethical standards
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the board
- monitoring prompt and appropriate rectification of any deficiencies or breakdowns identified in the fraud control environment
- monitoring the procedures to ensure compliance with Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)

For the year ended 30 June 2007

4.2 Audit and Remuneration Committee (continued)

The audit and remuneration committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results
- review the draft annual and half-year financial report, and recommend board approval of the financial report
- review the results and findings of the audit, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

4.3 Remuneration report

4.3.1 Principles of compensation - audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and S300A executives for the Company.

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

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

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

Compensation packages include fixed compensation and long-term incentives.

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

In addition, all directors of the Company are entitled to receive a post-employment cash benefit at the date of their retirement as director of the Company. The benefit is calculated as $15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the Corporations Act 2001.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

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

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

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

6,500,000 of the above options have been exercised during the financial year. The balance of 3,500,000 options expired on 31 March 2007.

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

In thousands of AUD	**2007**	**2006**	**2005**	**2004**
Net profit/(loss) attributable to equity holders of the parent	2,255	(875)	2,021	(990)
Dividends paid	0.1 cent	-	-	-
Change in share price	2.7 cents	-1.6 cents	2.6 cents	-0.5 cents
Return on capital employed	20.78%	-9.27%	21.31%	-11.69%

Net profit/(loss) amounts for years 2004 to 2005 were calculated in accordance with previous Australian GAAP. Net profit for 2006 to 2007 has been calculated in accordance with Australian Accounting Standards (AASBs). Dividends, changes in share price, and return of capital are included in the total shareholder return calculation which is one of the performance criteria assessed for key management personnel's compensation.

The overall level of key management personnel's compensation takes into account the performance of the Group over the last four years. During the period average key management personnel compensation has grown by approximately 17 per cent per annum.

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

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Directors' report (continued)

For the year ended 30 June 2007

4.3 Remuneration report (continued)

4.3.1 Principles of compensation – audited (continued)

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2004 AGM, is not to exceed $200,000 per annum and is set based on reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently up to $35,000 per annum. Non-executive directors also receive a base fee of $5,000 per annum if they are appointed as directors of subsidiary companies. The chairperson and committee members receive no extra fees. Directors' fees cover all main board activities and membership of the committee.

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

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

Non-executive directors are also entitled to receive a post-employment cash benefit at the date of their retirement as director of the Company. The benefit is calculated as $15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the Corporations Act 2001.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

4.3 Remuneration report (continued)
4.3.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited

The Company has one senior executive who is not a director of the Company. Details of the nature and amount of each major element of remuneration of each director of the Company and the named senior executive are:

		Short-term			Post-employment		Other long term	Other compen -sation	
In AUD		Salary & fees $	Non-monetary benefits $	Total $	Super-annuation benefits $	Retirement benefit $	Long service leave $	Insurance Premium $	Total $
Directors									
Non-executive director									
Mr SH Kwan	2007	34,999	-	34,999	3,150	8,173	-	6,092	52,414
	2006	34,999	-	34,999	3,150	-	-	7,527	45,676
Mr TR Allen	2007	47,499	-	47,499	4,275	11,026	-	6,092	68,892
	2006	42,499	-	42,499	3,825	-	-	7,527	53,851
Mr SB Wolfe*	2007	18,389	-	18,389	1,655	6,000	-	6,092	32,136
	2006	36,039	-	36,039	3,244	-	-	7,527	46,810
Executive director									
Dr LD Jayaweera	2007	213,884	37,322	251,206	18,900	8,173	27,048	6,092	311,419
Chairperson	2006	184,024	41,830	225,854	17,100	-	(12,894)	7,527	237,587
Mr GW Wrightson	2007	219,542	29,261	248,803	18,900	8,173	5,777	6,092	287,745
Managing Director	2006	199,178	21,312	220,490	18,525	-	861	7,527	247,403
Mr PS Tang	2007	109,571	29,467	139,038	9,900	8,173	-	6,092	163,203
Director- Finance	2006	101,102	32,665	133,767	9,000	-	-	7,527	150,294
Executive									
Mr IP Wilson**	2007	42,500	3,751	46,251	3,825	-	-	-	50,076
GM - Operation	2006	-	-	-	-	-	-	-	-
Total compensation:	2007	686,384	99,801	786,185	60,605	49,718	32,825	36,552	965,885
key management personnel (consolidated)	2006	597,841	95,807	693,648	54,844	-	(12,033)	45,162	781,621
Total compensation:	2007	686,384	99,801	786,185	60,605	49,718	32,825	36,552	965,885
key management personnel (company)	2006	597,841	95,807	693,648	54,844	-	(12,033)	45,162	781,621

* Mr. SB Wolfe resigned on 23 November 2006.
** Mr. IP Wilson was appointed on 2 April 2007.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)

For the year ended 30 June 2007

4.3 Remuneration report (continued)

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

(i) 2,000,000 options were issued to each of Mr. G Wrightson, Dr. L Jayaweera, Mr. S Kwan, Mr. P Tang and Mr. T Allen on 19 December 2002. All options were vested and exercisable during the financial year and at the reporting date these options were either exercised or expired. The fair value of the options were independently valued at the date of grant using the Black-Scholes Option Pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

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

Grant date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
19 December 2002	4.3 years	$Nil	$0.08	$0.047	7.31%	4.79%	N/A

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

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

4.3.3 Equity instruments

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

4.3.4 Options and rights over equity instruments granted as compensation - audited

No options over ordinary shares have been granted during or since the end of the financial year.

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

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

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Directors' report (continued)
For the year ended 30 June 2007

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

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

Directors	Options granted		% vested in year	Forfeited in year	Financial years in which grant vests	Value yet to vest $ (i)	
	Number	Date				Min	Max
Mr. SH Kwan	500,000	19 December 2002	-%	-%	1 July 2003	-	-
	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
Mr. TR Allen	500,000	19 December 2002	-%	-%	1 July 2003	-	-
	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
Dr LD Jayaweera	500,000	19 December 2002	-%	-%	1 July 2003	-	-
	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
Mr. GW Wrightson	500,000	19 December 2002	-%	-%	1 July 2003	-	-
	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-
Mr. PS Tang	500,000	19 December 2002	-%	-%	1 July 2003	-	-
	500,000	19 December 2002	-%	-%	1 July 2004	-	-
	500,000	19 December 2002	-%	-%	1 July 2005	-	-
	500,000	19 December 2002	100%	-%	1 July 2006	-	-

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

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

4.3 Remuneration report (continued)
4.3.7 Exercise of options granted as compensation – audited
During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid $/share
Directors		
Mr. TR Allen	500,000	0.08
Dr LD Jayaweera	2,000,000	0.08
Mr. GW Wrightson	2,000,000	0.08
Mr. PS Tang	2,000,000	0.08

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2007 financial year. No shares were issued on the exercise of options in the 2006 financial year.

4.3.8 Analysis of movement in options -unaudited
The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director is detailed below.

		Value of Options		
	Grant in year (i)	Exercised in year $ (ii)	Lapsed in year $ (iii)	Total option value in year $
Directors				
Mr. SH Kwan	-	-	2,000	2,000
Mr. TR Allen	-	500	1,500	2,000
Dr LD Jayaweera	-	-	-	-
Mr. GW Wrightson	-	2,000	-	2,000
Mr. PS Tang	-	2,000	-	2,000

(i) No options were granted during the reporting period.

(ii) The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(iii) The value of the options that lapsed during the year represents the benefit forgone and is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were expired after deducting the exercising price of the option.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)

For the year ended 30 June 2007

4.4 Risk management

Oversight of the risk management system

The board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting and compliance risks for the Group. The Managing Director and the Director of Finance have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the Annual Financial Report for all material operations in the Group.

Risk profile

The board reviews regularly the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the program.

Major risks arise from such matters as action by customers, competitors, government policy changes, environment, occupational health and safety, the impact of exchange rate and product price movements, difficulties in sourcing feed materials, and problems in the development of technical processes.

Risk management and compliance and control

The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, organisational structures that provide an appropriate division of responsibility and the careful selection and training of qualified personnel. It comprises the Company's internal compliance and control systems, including:

- Operating unit control – Operating units confirm compliance with financial controls and procedures
- Functional speciality reporting – Key areas subject to regular reporting to the board include Environmental, Legal and Occupation Health and Safety matters
- Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where business are being acquired or divested

In this regard, the Company has an Environmental Policy Statement, Occupational Health and Safety Policy Statement and Quality Policy Statement which set out the standards in accordance with which each director, officer and employee of the Company is expected to act. The requirement to comply with these policies is communicated to all employees. The statements are available at the office of the Company.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

4.4 Risk management (continued)
Comprehensive practices have been established to ensure:
- capital expenditure and revenue commitments above a certain size obtain prior board approval
- financial exposures are controlled, including the use of derivatives. Further details of the Company's policies relating to metal price hedging and forward exchange rate management are included in note 25 to the financial statements
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- business transactions are properly authorised and executed
- the quality and integrity of personnel (see below)
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below)
- environmental regulation compliance (see below).

Quality and integrity of personnel
Written confirmation of compliance with policies in the Ethical Standards Manual is obtained from all operating units. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Financial reporting
The Managing Director and the Director of Finance have declared, in writing to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Environmental regulation
The Group's operations are subject to licence requirements issued under the Protection of the Environment Operations Act 1997 ('POEO Act') in relation to its business of processing industrial residues and manufacturing chemical products including treatment processes, immobilisation of by products, disposal of effluent streams and transportation of materials that are subject to specific approvals from and close scrutiny by the Commonwealth and State Department of Environment and Conservation.

The Group is committed to achieving a high standard of environmental performance. Site managers are responsible for management and monitoring of compliance with the various licences, environmental regulations and specific requirements of site environmental licence conditions under which the facilities operate.

Site managers report environmental performance to the Group General Manager - Operation 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.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

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

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

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

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

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

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

4.5 Ethical standards
All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The board reviews the Ethical Standards policy regularly and processes are in place to promote and communicate these policies. The 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 the Group are set out in note 29 to the financial statements.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)

For the year ended 30 June 2007

4.5 Ethical standards (continued)

Code of conduct

The Group has advised each director, manager and employee that they must comply with the Ethical Standards Policy. The policy is available to be viewed in the office of the Company, and it covers the following:

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core company values and objectives
- fulfilling responsibilities to shareholders by delivering shareholder value
- usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced
- employment practice such as occupational health and safety, employment opportunities, community activities, sponsorships and donations
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution
- conflicts of interest
- corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain
- confidentiality of corporate information
- fair dealing
- protection and proper use of the Company's assets
- compliance with law
- reporting of unethical behaviour.

Trading in general Company securities by directors and employees

The key elements of the Trading in General Company Securities by Directors and Employees Policy set out in the Ethical Standards Policy are:

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

The policy also details the insider trading provisions of the Corporations Act 2001 and is available at the office of the Company.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

4.6 Communication with shareholders
The board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. In summary, the Continuous Disclosure Policy operates as follows:

- the Managing Director and the Director of Finance, who also acts as the Company Secretary, are responsible for interpreting the company's policy and where necessary informing the board. The Director of Finance is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered
- the full annual financial report is available to all shareholders
- the half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it
- proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website
- the external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

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

In November 2006, the Group commissioned a new operation to process used lead acid battery (motor vehicle battery) to recover lead metal and oxide as feed material for secondary lead smelters.

There were no other significant changes in the nature of the activities of the Group during the year.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

5. Principal activities (continued)
Objectives

The Group's objectives are to:

- Continue to build sustainable profitability through the full development of the Battery Recycling Project at Unanderra along with increased growth of the selenium/precious metals business at our Tomago operation.
- Complete the assessment of the preferred and likely location for a secondary lead smelter operation to maximise the return on lead products generated from our battery recycling plant.
- Complete evaluation studies aimed at production of other zinc based product options for EAF dust.
- Continue to broaden and strengthen the precious metals/selenium recovery project and revenue at the Company's Tomago facility.
- Deliver a sustainable and adequate return on equity.
- Identify additional major waste treatment projects within which Hydromet's recognised unique processing technology can be applied.
- Increase our customer base and satisfaction with our services and products.

In order to meet these objectives the following targets have been set for the 2008 financial year and beyond:

- Complete processing of valuable new selenium/precious metals residues from contracts established during the 2006/07 financial year to increase revenues and profit contribution to the group and minimise the impact of the affects of volatile changes in metal prices.
- Establish a sustainable Copper chemical business from available copper contained in selenium/precious metals residues processed at our Tomago facility.
- Grow market share in existing waste treatment and product sales to increase revenue and operating activities.
- Review pricing regularly.
- Continue to develop new business projects to maximise utilisation of the Company's infrastructure and resources.

6. Operating and financial review
Overview of the Group

The profit reported for 2007 reflects the successful achievement of two major objectives for the period namely:

- The Battery Recycling Project at our Unanderra NSW facility.
- The growth strategy adopted to maximise our technology to process selenium/precious metal bearing residues at our Tomago NSW operation.

The battery recycling project got underway with commissioning in November 2006. Our monthly production target was reached in March 2007 and record lead prices have been beneficial as we establish our client market both in Australia and overseas. An application to increase our annual processing rate from 12,000 tonnes per year of batteries to 36,000 tonnes has been lodged with a decision expected by August 2007. We do not anticipate any problems in obtaining the necessary approval. Plans for a secondary smelter plant continued during the year with submissions to preferred locations lodged with appropriate authorities.

The selenium business remains a valuable contributor of revenue and profit. Selenium pricing saw a steady increase over the financial year underpinning our success in securing additional feed sources for the Tomago plant. The business has grown from a minor activity in 2002 to a significant business segment capable of generating sales of $13 million per annum. We have sourced further residues for processing from South Africa and Canada and forecast operations at plant capacity for financial year 2008.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

6 Operating and financial review (continued)
Overview of the Group (continued)

The Electric Arc Furnace (EAF) dust project continued during the year meeting forecast feed rate expectations. Zinc sulphate sales from zinc extracted from the dust were affected by the drought conditions however we did exceed sales expectations in volume and pricing for the six months ending June 07. Again record zinc metal pricing during the year attracted the attention of other parties interested in the EAF dust. Future involvement for Hydromet is under negotiation with considerable pressure on treatment fees in the current zinc price climate.

Again the waste recycling industry in Australia has witnessed continuing consolidation over the past 12 months. Hydromet also continues to conduct acquisition reviews within the waste and related industry where business synergies appear to exist. Our due diligence program conducted on a Philippine's based selenium/tellurium producer in early 2007 was not successful due to a significant valuation difference with the owners.

Shareholder returns

In thousands of AUD	**2007**	**2006**	**2005**	**2004**	**2003**
Net profit/(loss) attributable to equity holders of the parent	2,255	(875)	2,021	(990)	(4,466)
Basic EPS (cents)	0.754	(0.296)	0.71	(0.37)	(1.651)
Dividends paid/payable	315	-	-	-	-
Dividend per share (cents)	0.1	-	-	-	-
Change in share price (cents)	2.7	-1.6	2.6	-0.5	-1.9
Return on capital employed	20.78%	-9.27%	21.31%	-11.69%	-39.62%

Investments for future performance

Hydromet's identification of the battery recycling project and expansion of the selenium project will play a major role in the long term sustainability of the group with revenue streams from zinc, lead, precious metals, copper, tellurium and treatment fees capable of increasing our income to in excess of $60 million and profitability to $15 million based on today's metal prices and feed costs.

Our strategy is to implement the growth plans and diversify to complementary product opportunities that the above projects are capable of providing over the coming years.

Review of financial condition

During the financial year, the Group has redeemed $300,000 debentures and extended the maturity dates of $500,000 debentures for another six months and $300,000 debentures for another one year.

In March 2007, the Company issued $450,000 Convertible Notes at their face value. The notes have a coupon rate of 9% per annum and mature in 30 months from the date of issue. The notes are convertible to ordinary shares of the Company at the price of 10 cents per share on or at any time before their maturity. The notes will be redeemed at their face value on maturity if the holders fail to convert the notes to ordinary shares. A penalty payment of 5% of the face value of the notes will be paid to the holders on redemption if the Group fails to achieve a basic earning per share of 1 cent in the 2009 financial year and the share price is less than ten cents per share.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)

For the year ended 30 June 2007

6 Operating and financial review (continued)

Review of financial condition (continued)

During the months from January to March 2007 the Company has issued 6,835,000 ordinary shares to its employees and directors under the Employee Share Option Plan and the Executive Share Option Plan. The shares were issued at 8 cents per share.

In May 2007 the Company made a private placement of 13,333,333 ordinary shares to a sophisticated investor. The shares were issued at 7.5 cents per share.

In May 2007 the Group has fully repaid the bank loan of $390,000 which was arranged in the first half of the financial year to finance the battery crushing plant building.

The net cash used in operating activities during the year was $1,105 thousand (2006: $907 thousand). The net cash used in investing activities was $2,170 thousand (2006: $1,992 thousand). Net cash provided by financing activities was $2,433 thousand (2006: $1,934 thousand). The cash balance at the end of the financial year was $1,628 thousand (2006: $2,474 thousand).

Review of principal businesses

Residues treatment

Unanderra facility

The Unanderra facility concentrated on processing EAF dust and zinc sulphate production along with commissioning the battery Recycling Project in November 2006.

EAF dust/zinc sulphate project

We processed EAF dust from Smorgon Steel and Comsteel for the full year with Onesteel dust also treated until September 2006, when cheaper treatment fees resulted in the Onesteel dust being redirected to a competitor.

A total of 13,743 tonnes of EAF dust was processed for the year with 1,815 tonnes of zinc sulphate from treated dust sold into the domestic agricultural market. Improvements in product quality, zinc sulphate pricing and process optimisation saw profits emerge from both the EAF dust treatment fees and sales of zinc sulphate. The favourable outcome was the result of a committed program of product and cost improvement to ensure support from the zinc sulphate market for a long term association with Hydromet.

With the zinc metal pricing reaching record heights during the year the EAF dust has attracted others claiming to be able to treat or blend the dust to produce a saleable concentrate which would be of interest to zinc smelters. To the best of our knowledge none of the competitors have demonstrated a proven zinc recovery process however they have all indicated treatment fees/gate fees at low levels which Hydromet is unable to match. Our clients Smorgon Steel and Comsteel have accepted an offer from a competitor which will effectively end Hydromet's involvement for the time being. Despite competitor claims Hydromet remains the only EAF dust processor to have a proven zinc recovery process suited to the particular contaminant characteristics of the dust.

Regardless of a decision from Smorgon/Comsteel we will complete valuable plant trial work to assess the commercial value of electro winning the zinc in metal form for consumption by the zinc galvanising industry.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

6 Operating and financial review (continued)
Review of principal businesses (continued)
Tomago facility
Minmet emerged strongly from the affects of a fallen selenium market in the 2005/06 financial year with better than forecast productivity, revenue and profit contribution for the year.

The selenium price collapse of 2006 was short lived with pricing recovering from a low US$19 per lb to $41 per lb in June 2007. Although the market has softened from June the slow down is associated with the northern summer holiday period slowing production of selenium based products. Steps taken by Hydromet during the fall of 2006 will minimise the impact of market conditions on our operations and enable us to accommodate the annual slow down cycle.

We have been successful in securing more selenium bearing feed for Minmet and expect the 2007/08 financial year to result in record productivity with respect to feed stocks and selenium sales. Treatment fee income will also increase along with other product opportunities resulting from the additional volume to be processed.

The Minmet facility is now a dedicated selenium/precious metals processing site with a firmly established reputation for the treatment of complex residues requiring the specific technology developed at the facility to extract value from the materials processed on behalf of our worldwide client base.

Our strategy for Minmet is to expand the specialised technology based segment further in 2008 to define other product opportunities to grow the business further through associations with new generators and product customers.

Used Lead Acid battery
Unanderra facility
The 36,000 tonne per annum used lead acid battery (ULAB) recycling plant commenced processing in November 2006 with first lead product sales made in December. We reached the present monthly target of 1,000 tonnes in March and have since exceeded the March processing level.

For the nine months to June 2007 we processed 320,000 batteries weighing 4,700 tonnes yielding approximately 2,600 tonnes of lead and 213 tonnes of recyclable plastic.

Sales of our lead products have to date been made to customers in Australia, Thailand, Germany and New Zealand. We have enjoyed the benefit of a record lead price over the financial year and have continued to secure long term sources of used battery feed to meet expected increased productivity in the 2008 financial year.

We plan to introduce an additional upgrading stage for our intermediate lead products at Unanderra to optimise both our metal and oxide grades to increase our customer base and improve financial returns. This is particularly important in the present high demand/price climate and will also be of benefit when the lead price falls back to more traditional levels.

We anticipate approval to increase our annual ULAB processing rate from 12,000 tonnes to 36,000 in August 2007 and plan to increase operating hours to meet the gradual increase in productivity.

Applications have been prepared for submission to the relevant authorities for the construction of a secondary lead smelter at two locations considered suitable for this expansion. The smelter option will enable Hydromet to maximise the financial return on lead recovered from the battery recycling plant and capitalise on revenue and profit contribution substantially.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

6 Operating and financial review (continued)

Other operations

Hobart facility

Hydromet has provided a treatment solution for Mercury Waste for our client. The process is costly and is currently being evaluated along with other prospective solution providers. We expect a decision by December 2007.

The Stanton Prospect

During the year a subsidiary entered a sale option agreement with a party interested in combining the Stanton resource with other mining projects under their consideration. The option agreement will run into the 2008 financial year while further evaluation is completed by the interested party.

Significant changes in the state of affairs

On 24 October 2006 the Group extended the maturity date of $300,000 debentures for another one year. On 27 March 2007 the Group also extended the maturity date of $500,000 debentures for another six months. During the financial year $300,000 debentures were matured and redeemed by the Group.

In March 2007, the Company issued $450,000 Convertible Notes at their face value.

During the months from January to March 2007 the Company has issued 6,835,000 ordinary shares to its employees and directors under the Employee Share Option Plan and the Executive Share Option Plan. The shares were issued at 8 cents per share.

In May 2007 the Company made a private placement of 13,333,333 ordinary shares to a sophisticated investor. The shares were issued at 7.5 cents per share.

There were no other material significant changes in the state of affairs of the Group that occurred during the year.

7 Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Declared after end of year

After the balance sheet date the directors proposed a fully franked final dividend of 0.1 cents per ordinary share. The dividends are payable on or before 9 November 2007. The total amount of the dividends payable is $315,466. The dividends have not been provided and there are no income tax consequences.

The financial effect of the dividends has not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognised in subsequent financial reports.

8 Event subsequent to reporting date

Subsequent to 30 June 2007, the Group has been advised by its customer Smorgon Steel that they have entered into an agreement to place their Electric Arc furnace Dust with a competitor under economic consideration. The Group is pursuing other identified opportunities available for the Unanderra facility and believe Smorgon Steel's decision will have a minimum impact on overall future results of the Group.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)

For the year ended 30 June 2007

8 Event subsequent to reporting date (continued)

Other than the matter 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 future financial years.

9 Likely developments

- We will complete valuable EAF dust/zinc product development program work in the December 2007 half year.
- The battery recycling project contribution will continue to grow as we obtain increased processing volume approval and customer base. Enhancement and quality improvements will be introduced to increase sales opportunities for our lead products at the same time as we make application to build a secondary lead recovery plant to optimise lead value and cement a sound sustainable position in the used lead acid battery industry in Australia.
- We expect a clear position on the secondary smelter opportunity to be available by December 2007 with likely location of the plant to be confirmed.
- The strategy adopted to expand our selenium/precious metal business at Minmet will continue to ensure Hydromet remains a substantial player in this niche business.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

10 Directors' interests

The relevant interest of each director in the shares issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Hydromet Corporation Limited Ordinary shares
Mr TR Allen	300,000
Dr LD Jayaweera	36,527,511
Mr SH Kwan	46,000
Mr PS Tang	2,859,000
Mr GW Wrightson	1,078,300

11 Share options

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

Unissued shares under options

At the date of this report there are no unissued ordinary shares of the Company under option.

Shares issued on exercise of options

During or since the end of the financial year, the Company issued 6,835,000 ordinary shares as a result of the exercise of options. The shares were issued at 8 cents per share and there were no amounts unpaid on the shares issued.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)
For the year ended 30 June 2007

12 Indemnification and insurance of officers
Indemnification

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 and Mr TR Allen and the former director, Mr. SB Wolfe, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premium

Since the end of the previous financial year the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, including senior executive officers of the Company and directors, and executive officers and secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

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

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

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

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Remuneration Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, 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.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' report (continued)

For the year ended 30 June 2007

13 Non-audit services (continued)

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	
	2007	**2006**
	$	**$**
Audit service:		
Audit and review of financial reports (KPMG Australia)	91,829	76,910
Audit of first time AIFRS adoption	-	20,829
	91,829	97,739
Services other than statutory audit:		
Other regulatory audit service		
Worker compensation review (KPMG Australia)	1,050	1,050
Research & development review (KPMG Australia)	-	3,500
Other services		
Taxation compliance services (KPMG Australia)	5,500	13,270
Taxation compliance services (KPMG New Zealand)	12,019	15,350
	18,569	33,170

14 Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 78 and forms part of the directors' report for the financial year ended 30 June 2007.

15 Rounding off

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

This report is made with a resolution of the directors:

GW Wrightson
Director

Dated at Unanderra this 28th day of August 2007.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Balance Sheets
As at 30 June 2007

		Consolidated		Company	
In thousands of AUD	**Note**	**2007**	**2006**	**2007**	**2006**
Assets					
Cash and cash equivalents	17a	1,628	2,474	1,559	2,041
Trade and other receivables	16	5,285	2,453	8	140
Inventories	15	3,815	765	-	1
Prepayments		58	52	17	3
Current tax assets	14	14	47	14	47
Assets classified as held for sale	18	382	-	-	-
Total current assets		11,182	5,791	1,598	2,232
Receivables	16	-	-	13,492	9,940
Investments	13	-	-	7,951	6,704
Property, plant and equipment	11	9,838	8,504	299	346
Intangible assets	12	663	1,045	-	-
Total non-current assets		10,501	9,549	21,742	16,990
Total assets		21,683	15,340	23,340	19,222
Liabilities					
Trade and other payables, incl. derivatives	24	3,095	1,438	175	233
Loans and borrowings	21	2,693	2,208	64	48
Employee benefits	22	431	299	134	96
Deferred income		77	66	-	-
Provisions	23	1,052	966	-	-
Total current liabilities		7,348	4,977	373	377
Loans and borrowings	21	1,372	1,000	14,084	12,831
Employee benefits	22	270	138	141	48
Provisions	23	3	215	3	15
Total non-current liabilities		1,645	1,353	14,228	12,894
Total liabilities		8,993	6,330	14,601	13,271
Net assets		12,690	9,010	8,739	5,951
Equity					
Share capital	19	65,585	64,010	65,585	64,010
Reserves	19	(150)	-	-	-
Accumulated losses	19	(52,745)	(55,000)	(56,846)	(58,059)
Total equity	19	12,690	9,010	8,739	5,951

The notes on pages 36 to 74 are an integral part of these consolidated financial statements.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Income statements

For the year ended 30 June 2007

In thousands of AUD	Note	Consolidated 2007	Consolidated 2006	Company 2007	Company 2006
Revenue from sales of goods		13,724	4,554	-	15
Revenue from rendering of services		5,906	9,010	20	988
	6	19,630	13,564	20	1,003
Other income	7	124	133	-	73
Changes in inventories of finished goods & WIP		(162)	(1,979)	-	-
Raw materials and consumables used		(5,525)	(1,555)	(2)	(101)
Direct production costs		(5,037)	(5,293)	(38)	(897)
Personnel expenses	8	(4,136)	(4,112)	(1,336)	(1,233)
Depreciation and amortisation expenses		(746)	(483)	(64)	(72)
Write back provision for intercompany loans and investments		-	-	3,251	55
Consultants and professional services		(210)	(347)	(101)	(323)
Insurance expenses		(223)	(222)	(76)	(70)
Property rental and site costs		(116)	(116)	(17)	(17)
Net loss on sale of property, plant and equipment		(29)	(11)	(29)	(12)
Other expenses		(707)	(558)	(360)	(295)
Results from operating activities		2,863	(979)	1,248	(1,889)
Financial income		77	146	67	134
Financial expenses		(697)	(201)	(114)	(16)
Net financing costs	9	(620)	(55)	(47)	118
Profit/(loss) before income tax		2,243	(1,034)	1,201	(1,771)
Income tax credit	10	12	159	12	159
Profit/(loss) for the period		2,255	(875)	1,213	(1,612)
Earnings per share:					
Basic earnings per share (cents)	20	0.754	(0.296)		
Diluted earnings per share (cents)	20	0.748	(0.296)		

The notes on pages 36 to 74 are an integral part of these consolidated financial statements.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Statements of recognised income and expense

For the year ended 30 June 2007

		Consolidated		Company	
In thousands of AUD	**Note**	**2007**	**2006**	**2007**	**2006**
Effective portion of change in fair value of cash flow hedges		(150)	-	-	-
Income and expense recognised directly in equity		(150)	-	-	-
Profit/(Loss) for the period		2,255	(875)	1,213	(1,612)
Total recognised income and expense for the period	19	2,105	(875)	1,213	(1,612)
Attributable to equity holder of the Company		2,105	(875)	1,213	(1,612)

The notes on pages 36 to 74 are an integral part of these consolidated financial statements.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Statements of cash flows
For the year ended 30 June 2007

		Consolidated		Company	
In thousands of AUD	**Note**	**2007**	**2006**	**2007**	**2006**
Cash flows from operating activities					
Cash receipts from customers		17,069	13,999	179	1,464
Cash paid to suppliers and employees		(17,841)	(14,806)	(2,004)	(3,185)
Cash used in operations		(772)	(807)	(1,825)	(1,721)
Interest paid		(410)	(201)	(37)	(16)
Interest received		77	101	67	88
Net cash used in operating activities	17b	(1,105)	(907)	(1,795)	(1,649)
Cash flows from investing activities					
Acquisition of property, plant and equipment	11	(2,190)	(2,042)	(153)	(163)
Proceeds from sale of property, plant and equipment	11	20	50	20	41
Loans to subsidiaries to finance working capital		-	-	(1,451)	(1,765)
Net cash used in investing activities		(2,170)	(1,992)	(1,584)	(1,887)
Cash flows from financing activities					
Payment of finance lease liabilities	21	(231)	(102)	(80)	(83)
Proceeds from the issue of share capital	19	1,575	-	1,575	-
Proceeds from the issue of debentures	21	-	820	-	-
Proceeds from the issue of convertible notes	21	413	-	413	-
Loans from subsidiaries		-	-	837	2,411
Repayments of borrowings	21	(524)	-	-	-
Proceeds from borrowings	21	1,200	1,216	156	173
Net cash from financing activities		2,433	1,934	2,901	2,501
Net (decrease)/increase in cash and cash equivalents		(842)	(965)	(478)	(1,035)
Cash and cash equivalents at 1 July		2,474	3,442	2,041	3,079
Effect of exchange rate fluctuations on cash held		(4)	(3)	(4)	(3)
Cash and cash equivalents at 30 June	17a	1,628	2,474	1,559	2,041

The notes on pages 36 to 74 are an integral part of these consolidated financial statements.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Index to notes to the financial statements

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Index to significant accounting policies

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

1. Reporting entity

Hydromet Corporation Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Lot 3, Five Islands Road, Unanderra, NSW 2526, Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group primarily is involved in the processing of industrial residues and manufacturing of value added products therefrom and process used lead acid battery to recycle all materials within (see note 5).

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs)(including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 – measurement of the recoverable amounts of cash-generating units
- Note 14 – utilisation of tax losses
- Note 23 – provisions
- Note 25 – valuation of financial instruments

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

The entity has elected to early adopt the following standards and amendments:

- AASB 101 Presentation of Financial Statements
- AASB 2007-4 Amendments to Australian Accounting Standards arising from ED151 and Other Amendments

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities using the exchange rate at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provision of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(m).

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

(ii) Derivative financial instruments

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

Cash flow hedges

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

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

(iii) Compound financial instruments

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

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

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 July 2004, the date of transition to AASBs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful life. Land is not depreciated.

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

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(e) Intangible assets

(i) Research and development

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

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

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

The Group's hydrometallurgical processing technology (the Hydroproc process), which has an indefinite useful life, is systematically tested for impairment at each balance sheet date. The useful life of the Hydroproc process is assessed annually.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

The Group adopted Interpretation 4 *Determining whether an Arrangement Contains a Lease*, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2007 consolidated financial statements.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

All impairment losses are recognised in profit or loss.

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

(ii) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(i) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(ii) Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximating the terms of the Group's obligations.

(iii) Short-term benefits

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

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The costs are estimated based on current legal requirements and technology. The costs are reviewed annually and any changes are reflected in the value of the provision at the end of the reporting period.

Site restoration

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

Waste disposal

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

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(k) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable net of volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. For export sales of lead and selenium products, transfer occurs upon loading the goods onto the relevant carrier for international shipment. For export sales of precious metal transfer occurs upon the final assay of the material and the date of settlement is agreed with the customer. For local sales of chemical products transfer occurs upon receipt by the customer.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to tracking of work performed.

Advanced service fee received from customers for uncompleted processing is recognised as deferred income. The fee is recognised in profit or loss in proportion to the stage of subsequent completion of the process.

(iii) Government grants

A research and development grant is recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(l) Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(m) Finance income and expenses

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

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

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

3. Significant accounting policies (continued)

(n) Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Hydromet Corporation Limited.

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

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

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

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

At 30 June 2007, no tax funding agreement has been entered into by the members of the tax-consolidated group.

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Notes to the financial statements

3. Significant accounting policies (continued)

(o) Goods and services tax

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

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

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

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(r) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation,* AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts arising from the release of* AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.

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Notes to the financial statements

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations,* AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 11 AASB *2 Share-based Payment - Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of AASB 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to international Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 *Service Concession Arrangements*.
- AASB 2007-2 Amendments to Australian Accounting Standards also amends reference to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

(s) Non current assets held for sale

Exploration and evaluation assets

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

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

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

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

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

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Notes to the financial statements

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Derivatives

The fair value of forward exchange contracts and commodity swap contracts are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(iv) Share-based payment transactions

The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(v) Financial guarantees

For financial guarantee contract liabilities, the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. This method takes into account the probability of default by the guaranteed party over the term of the contact, the loss given default (being the proportion of the exposure that is not expected to be recovered in the event of default) and exposure at default (being the maximum loss at the time of default).

5. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

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Notes to the financial statements

5. Segment reporting (continued)

Business segments

The group comprises the following main business segments:

- Residues treatment. The treatment of industrial residues and production of chemical/metal products therefrom.
- Used lead acid battery. The breaking of used lead acid battery and recycling all components within.

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.

Business segments

	Residues treatment		**Used battery**		**Consolidated**	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Total external revenues	14,591	13,564	5,039	-	19,630	13,564
Total segment revenues	14.591	13.564	5,039	-	19,630	13,564
Segment result	1,568	1,084	3,292	-	4,860	1,084
Unallocated expenses					(1,997)	(2,063)
Results from operating activities					2,863	(979)
Net finance costs					(620)	(55)
Income tax credit					12	159
Profit for the period					2,255	(875)
Segment assets	13,992	11,608	5,833	1,345	19,825	12,953
Unallocated assets					1,858	2,387
Total assets					21,683	15,340
Segment liabilities	4,342	5,723	1,894	-	6,236	5,723
Unallocated liabilities					2,757	607
Total liabilities					8,993	6,330
Capital expenditure	265	697	1,772	1,345	2,037	2,042
Unallocated capital expenditure					153	-
Total capital expenditure					2,190	2,042
Depreciation	428	483	255	-	683	483
Unallocated depreciation					64	-
Total depreciation					747	483

6. Revenue

	Consolidated		**Company**	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Sales	13,724	4,554	-	15
Services	5,906	9,010	20	988
Total revenues	19,630	13,564	20	1,003

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Notes to the financial statements

7. Other income

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Research & development grant	-	73	-	73
Sale of scrap material	-	11	-	-
Freight income	53	38	-	-
Options fee received	50	-	-	-
Other	21	11	-	-
	124	133	-	73

8. Personnel expenses

In thousands of AUD				
Wages and salaries	2,766	2,909	751	778
Other associated personnel expenses	713	512	241	183
Contributions to defined contribution superannuation funds	463	379	224	156
Increase in liability for directors' retirement	50	-	50	-
Increase in liability for annual leave	55	273	21	120
Increase/(decrease) in liability for long service leave	89	39	49	(4)
	4,136	4,112	1,336	1,233

9. Finance income and expense

In thousands of AUD				
Net foreign exchange gain	-	45	-	46
Interest income on bank deposits	77	101	67	88
Finance income	77	146	67	134
Interest expense on financial liabilities measured at amortised cost	(410)	(201)	(37)	(16)
Net foreign exchange loss	(238)	-	(77)	-
Ineffective portion of changes in fair value of cash flow hedges	(49)	-	-	-
Finance expense	(697)	(201)	(114)	(16)
Net finance (expense)/income	(620)	(55)	(47)	118

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Notes to the financial statements

10. Income tax credit

Recognised in the income statement

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Current tax expense				
Current year	618	-	-	-
Adjustments for prior years	(12)	(159)	(12)	(159)
	606	(159)	(12)	(159)
Deferred tax expense				
Origination and reversal of temporary differences	95	256	-	513
Change in unrecognised temporary differences	(95)	(256)	-	(513)
Utilisation of previously unrecognised tax losses	(618)	-	-	-
	(618)	-	-	-
Total income tax (credit)	(12)	(159)	(12)	(159)

Numerical reconciliation between tax-expense and pre-tax net profit

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Profit/(Loss) excluding income tax	2,243	(1,034)	1,201	(1,771)
Income tax using the Company's domestic tax rate of 30% (2006: 30%)	673	(310)	360	(531)
Other assessable income	-	25	-	22
Non-assessable non-exempt loss	12	-	12	-
Non-deductible expenses	28	29	4	19
Effect of temporary differences not recognised – tax losses	-	262	-	526
Current year loss utilised by the consolidated group	-	-	598	-
Non-assessable income	-	-	(974)	(23)
Effect of temporary differences not recognised – other	(95)	(6)	-	(13)
Utilisation of carried forward tax losses not recognised	(618)	-	-	-
	-	-	-	-
(Over) provided in prior years	(12)	(159)	(12)	(159)
Income tax (credit) on pre-tax net profit	(12)	(159)	(12)	(159)

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

11. Property, plant and equipment

In thousands of AUD	Consolidated Land and buildings	Consolidated Plant and equipment	Consolidated Motor vehicles and office equipment	Consolidated Under construction	Consolidated Total	Company Plant and equipment	Company Motor vehicles and office equipment	Company Total
Cost or deemed cost								
Balance at 1 July 2005	6,121	4,731	647	-	**11,499**	134	473	**607**
Additions	10	505	182	1,345	**2,042**	23	140	**163**
Disposals	-	(4)	(150)	-	**(154)**	-	(120)	**(120)**
Balance at 30 June 2006	6,131	5,232	679	1,345	**13,387**	157	493	**650**
Balance at 1 July 2006	6,131	5,232	679	1,345	**13,387**	157	493	**650**
Additions	933	1,066	191	-	**2,190**	-	153	**153**
Transferred to plant and equipment	-	1,345	-	(1,345)	**-**	-	-	**-**
Disposals	-	(58)	(131)	-	**(189)**	(157)	(100)	**(257)**
Balance at 30 June 2007	7,064	7,585	739	-	**15,388**	-	546	**546**
Depreciation and impairment losses								
Balance at 1 July 2005	771	3,373	345	-	**4,489**	38	260	**298**
Depreciation for the year	83	302	98	-	**483**	21	51	**72**
Disposals	-	-	(89)	-	**(89)**	-	(66)	**(66)**
Balance at 30 June 2006	854	3,675	354	-	**4,883**	59	245	**304**
Balance at 1 July 2006	854	3,675	354	-	**4,883**	59	245	**304**
Depreciation for the year	96	579	71	-	**746**	11	53	**64**
Disposals	-	(25)	(54)	-	**(79)**	(70)	(51)	**(121)**
Balance at 30 June 2007	950	4,229	371	-	**5,550**	-	247	**247**
Carrying amounts								
At 1 July 2005	5,350	1,358	302	-	**7,010**	96	213	**309**
At 30 June 2006	5,277	1,557	325	1,345	**8,504**	98	248	**346**
At 1 July 2006	5,277	1,557	325	1,345	**8,504**	98	248	**346**
At 30 June 2007	6,114	3,356	368	-	**9,838**	-	299	**299**

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Notes to the financial statements

11. Property, plant and equipment (continued)

Leased motor vehicles

The Group leases motor vehicles under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the motor vehicle at a beneficial price. The leased motor vehicles secure lease obligations (see note 21). At 30 June 2007, the net carrying amount of leased motor vehicles was $308 thousand (2006: $254 thousand).

Security

At 30 June 2007 all assets with a carrying amount of $23,340 thousand (2006: $19,222 thousand) are subject to a registered fixed and floating charges to secure the debentures issued by the Group and second fixed and floating charges to secure banking facilities (see note 21).

12. Intangible assets

	Consolidated			Company		
In thousands of AUD	**Hydroproc Process**	**Exploration and evaluation**	**Total**	**Hydroproc Process**	**Exploration and evaluation**	**Total**
Cost						
Balance at 1 July 2005	2,217	373	2,590	-	-	-
Acquisitions	-	9	9	-	-	-
Balance at 30 June 2006	2,217	382	2,599	-	-	-
Balance at 1 July 2006	2,217	382	2,599	-	-	-
Transferred to assets classified as held for sale	-	(382)	(382)	-	-	-
Balance at 30 June 2007	2,217	-	2,217	-	-	-
Amortisation and impairment losses						
Balance at 1 July 2005	1,554	-	1,554	-	-	-
Balance at 30 June 2006	1,554	-	1,554	-	-	-
				-	-	-
Balance at 1 July 2006	1,554	-	1,554	-	-	-
Balance at 30 June 2007	1,554	-	1,554	-	-	-
Carrying amounts						
At 1 July 2005	663	373	1,036	-	-	-
At 30 June 2006	663	382	1,045	-	-	-
At 1 July 2006	663	382	1,045	-	-	-
At 30 June 2007	663	-	663	-	-	-

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Notes to the financial statements

12. Intangibles assets (continued)

Hydroproc process

The Hydroproc process is the technology applied by the Group in its operations. Hydroproc process is classified as an indefinite life asset as the Group's cash-generating units are applying the technology to process the industrial residue and produce chemical therefrom. Hydroproc process has been under continuous development to enhance its capability and efficiency. The recoverable amount of the Hydroproc process cash-generating unit was estimated based on its value in use and was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

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

A pre-tax discount rate of 15 percent (2006: 15 percent) has been used in discounting the projected cash flows. The recoverable amount of the unit was determined to be higher than its carrying amount and no impairments were incurred during the financial year.

Exploration and evaluation assets

The Stanton Prospect

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

The Company entered into an option agreement with an independent third party in November 2006 for the potential sale of the Stanton Prospect exploration and mining leases. Subject to certain conditions being met the party has the right to exercise the option to acquire the leases on or before 31 October 2007. The recoverable amount of the cash-generating unit was estimated to be higher than the carrying amount of the unit and no impairment was required.

The Stanton Prospect is transferred to assets classified as held for sale during the reporting period (see note 18).

13. Investments

	Consolidated		**Company**	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Non-current investment				
Investment in subsidiaries	-	-	13,384	13,288
Impairment loss	-	-	(5,433)	(6,584)
	-	-	7,951	6,704

During the reporting period the Company issued a guarantee to secure a debt for one of its subsidiaries. As the guarantee is given for the benefit of the subsidiary, the fair value of $96 thousand (2006: nil) of the guarantee is accounted for as investment in subsidiary.

An impairment loss of $1,151 thousand (2006: $76 thousand) was reversed during the current financial year and included in the profit and loss as a write back to provision for inter-company loans and investments. The reversal is owing to the improvement in performance and net asset values of subsidiaries during the year under review.

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Notes to the financial statements

14. Current tax assets and liabilities

The current tax assets for the Group of $14 thousand (2006: $47 thousand) and for the Company of $14 thousand (2006: $47 thousand) represents the amount of income taxes recoverable in respect of current and prior periods and arise from the payment of tax in excess of the amounts due to the relevant tax authority.

Unrecognised deferred tax assets and liabilities

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

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Deductible temporary differences	945	966	83	83
Tax losses	1,250	1,872	1,250	1,872
	2,195	2,838	1,333	1,955

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

15. Inventories

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Raw materials and consumables	3,479	267	-	1
Work in progress	136	171	-	-
Finished goods	200	327	-	-
Inventories stated at lower of cost and net realisable value	3,815	765	-	1

In the 2007 financial year raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $5,687 thousand (2006: $1,979 thousand). Due to deterioration inventories amounted to $4 thousand (2006: nil) were written off in the reporting period and are included in raw materials and consumables used.

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Notes to the financial statements

16. Trade and other receivables

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Current				
Trade and other receivables	5,285	2,453	8	140
	5,285	2,453	8	140
Non-current				
Loans to subsidiaries	-	-	13,492	9,940
	-	-	13,492	9,940

Loans to subsidiaries shown net of impairment losses amount to $27,447 thousand (2006: $29,548 thousand) recognised in current and previous years, and arising from the net shareholder's funds of the subsidiaries that were less than the loans due to the Company. The impairment loss reversed in the current year was $2,101 thousand (2006: loss recognised $20 thousand).

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

Receivables denominated in currencies other than the functional currency comprise $3,553 thousand of trade receivables denominated in U.S. Dollar (2006: $481thousand).

17a. Cash and cash equivalents

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Bank balances	757	1,187	688	754
Call deposits	871	1,287	871	1,287
Cash and cash equivalents in the statement of cash flows	1,628	2,474	1,559	2,041

The effective interest rate on call deposits in 2007 was 6.1 percent (2006: 5.75%). The deposits are on 24 hours call term (2006: 24 hours call).

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Notes to the financial statements

17b. Reconciliation of cash flows from operating activities

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Cash flows from operating activities				
Profit/(loss) for the period	2,255	(875)	1,213	(1,612)
Adjustments for:				
Depreciation	746	483	64	72
Scrapping of property plant and equipment	60	5	30	-
Effect of exchange rate fluctuations on cash held	4	3	4	3
(Reversal of) impairment losses on investment	-	-	(1,151)	(75)
(Reversal of) impairment losses on loans to subsidiaries	-	-	(2,101)	20
Fair value of guarantee classified as investment in subsidiary	-	-	(96)	-
Change in fair value of cash flow hedge	(150)	-	-	-
(Gain)/loss on sale of property, plant and equipment	29	11	29	12
Operating (loss)/profit before changes in working capital and provisions	2,944	(373)	(2,008)	(1,580)
Change in trade and other receivables	(2,805)	257	160	342
Change in inventories	(3,050)	1,856	1	-
Change in trade and other payables	1,744	(2,591)	(49)	(356)
Change in provisions and employee benefits	62	(56)	101	(55)
Net cash from/(used in) operating activities	(1,105)	(907)	(1,795)	(1,649)

18. Assets classified as held for sale

Exploration and evaluation assets

The Stanton Prospect

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

The Company entered into an option agreement with an independent third party in November 2006 for the potential sale of the Stanton Prospect exploration and mining leases. Subject to certain conditions being met the party has the right to exercise the option to acquire the leases on or before 31 October 2007. The recoverable amount of the cash-generating unit was estimated to be higher than the carrying amount of the unit and no impairment was required.

The Stanton Prospect was classified as intangible assets in 2006 financial year.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

19. Capital and reserves

Reconciliation of movement in capital and reserves

In thousands of AUD	**Share capital**	**Hedging reserve**	**Accumulated losses**	**Total equity**
Consolidated				
Balance at 1 July 2005	64,000	-	(54,126)	9,874
Total recognised income and expense	-	-	(875)	(875)
Issue of ordinary shares	10	-	-	10
Adjustment for rounding	-	-	1	1
Balance at 30 June 2006	64,010	-	(55,000)	9,010
Balance at 1 July 2006	64,010	-	(55,000)	9,010
Total recognised income and expense	-	(150)	2,255	2,105
Issue of ordinary shares	1,000	-	-	1,000
Issue of convertible note (net of tax)	28	-	-	28
Share options exercised	547	-	-	547
Balance at 30 June 2007	65,585	(150)	(52,745)	12,690
Company				
Balance at 1 July 2005	64,000	-	(56,447)	7,553
Total recognised income and expense	-	-	(1,612)	(1,612)
Issue of ordinary shares	10	-	-	10
Balance at 30 June 2006	64,010	-	(58,059)	5,951
Balance at 1 July 2006	64,010	-	(58,059)	5,951
Total recognised income and expense	-	-	1,213	1,213
Issue of ordinary shares	1,000	-	-	1,000
Issue of convertible note (net of tax)	28	-	-	28
Share options exercised	547	-	-	547
Balance at 30 June 2007	65,585	-	(56,846)	8,739

Share capital

	Ordinary Shares	
In thousands of shares	**2007**	**2006**
On issue at 1 July	295,298	295,132
Issued for releasing and cancelling mining mortgage	-	166
Issued for cash	13,333	-
Exercise of share options	6,835	-
On issue at 30 June – fully paid	315,466	295,298

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

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

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Notes to the financial statements

19. Capital and reserves (continued)

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends

No dividends were declared or paid during the year.

After the balance sheet date the directors proposed a fully franked final dividend of 0.1 cents per ordinary share. The dividends are payable on 9 November 2007. The total amount of the dividends payable is $315 thousand. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

The financial effect of the dividends has not been brought to account in the financial statements for the financial year ended 30 June 2007 and will be recognised in subsequent financial reports.

Dividend franking account

	Company	
In thousands of AUD	**2007**	**2006**
30 per cent franking credits available to shareholders of Hydromet Corporation Ltd for subsequent financial years	3,217	3,217

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $315 thousand (2006: nil).

20. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2007 was based on the profit attributable to ordinary shareholders of $2,255 thousand (2006: loss $875 thousand) and a weighted average number of ordinary shares outstanding of 299,109 thousand (2006: 295,283 thousand), calculated as follows:

Profit attributable to ordinary shareholders

	Consolidated	
In thousands of AUD	**2007**	**2006**
Profit/(loss) attributable to ordinary shareholders	2,255	(875)

Weighted average number of ordinary shares

		Consolidated	
In thousands of shares	**Note**	**2007**	**2006**
Issued ordinary shares at 1 July	19	295,298	295,132
Effect of share options exercised	19	1,948	-
Effect of shares issued	19	1,863	151
Weighted average number of ordinary shares at 30 June	19	299,109	295,283

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Notes to the financial statements

20. Earnings per share (continued)

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2007 was based on profit attributable to ordinary shareholders of \$2,272 thousand (2006: loss \$875 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 4,500 thousand (2006: nil), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	Consolidated	
In thousands of AUD	**2007**	**2006**
Profit/(loss) attributable to ordinary shareholders (basic)	2,255	(875)
Interest expense on convertible notes, net of tax	17	-
Net profit attributable to ordinary shareholders (diluted)	2,272	(875)

Weighted average number of ordinary shares (diluted)

		Consolidated	
In thousands of shares	**Note**	**2007**	**2006**
Weighted average number of ordinary shares (basic)		299,109	295,283
Effect of conversion of convertible notes	21	4,500	-
Weighted average number of ordinary shares (diluted) at 30 June		303,609	295,283

21. Loans and borrowings

This note provides information about the contractual terms of the Company's and Group's loans and borrowings. For more information about the Company's and Group's exposure to interest rate and foreign currency risk, see note 25.

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Current liabilities				
Secured bank loans	800	1,043	-	-
Current portion of finance lease liabilities	260	66	64	48
Debentures	1,633	1,099	-	-
	2,693	2,208	64	48
Non-current liabilities				
Finance lease liabilities	959	186	227	166
Debentures	-	814	-	-
Convertible notes	413	-	413	-
Loans from subsidiaries	-	-	13,444	12,665
	1,372	1,000	14,084	12,831

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Notes to the financial statements

21. Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

Consolidated

In thousands of AUD	Currency	Nominal interest rate	Year of maturity	30 June 2007 Face value	30 June 2007 Carrying amount	30 June 2006 Face value	30 June 2006 Carrying amount
Secured bank loans	USD	8.00%	2007	800	800	1,043	1,043
Debentures	AUD	12.00%	2007-2008	1,650	1,633	1,950	1,913
Convertible notes	AUD	9.00%	2009	450	413	-	-
Finance lease liabilities	AUD	7.81%	2008-2011	1,219	1,219	252	252
Total interest-bearing liabilities				4,119	4,065	3,245	3,208

Company

In thousands of AUD	Currency	Nominal interest rate	Year of maturity	30 June 2007 Face value	30 June 2007 Carrying amount	30 June 2006 Face value	30 June 2006 Carrying amount
Convertible notes	AUD	9.00%	2009	450	413	-	-
Finance lease liabilities	AUD	7.80%	2008-2011	291	291	214	214
Loans from subsidiaries	AUD	Free	no fixed terms	13,444	13,444	12,665	12,665
				14,185	14,148	12,879	12,879
Total interest-bearing liabilities				741	704	214	214
Total non interest-bearing liabilities				13,444	13,444	12,665	12,665

The bank loans are secured over registered second fixed and floating charges over all assets of Hydromet Corporation Limited and first fixed and floating charges over the assets of Hydromet Operations (Southern) Limited and Minmet Operations Pty Limited.

Convertible notes

In thousands of AUD	Consolidated 2007	Consolidated 2006	Company 2007	Company 2006
Proceeds from the issue of convertible notes	450	-	450	-
Transaction costs capitalised	(9)		(9)	
Net proceeds	441		441	
Amount classified as equity	(28)	-	(28)	-
Carrying amount of liability at 30 June 2007	413	-	413	-

The amount of the convertible notes classified as equity of $28 thousand is not net of attributable transaction cost as it is immaterial.

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

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Notes to the financial statements

21. Loans and borrowings (continued)

Debentures

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Issue of debentures	1,650	1,950	-	-
Transaction costs capitalised	(17)	(37)	-	
Carrying amount of liability at 30 June 2007	1,633	1,913	-	-

The debenture holders have a fixed and floating charge over the assets of the Company. The Company has issued no debentures.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

	Consolidated					
	Minimum lease payments	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
In thousands of AUD	**2007**	**2007**	**2007**	**2006**	**2006**	**2006**
Less than one year	341	81	260	83	17	66
Between one and five years	1,073	114	959	202	16	186
	1,414	195	1,219	285	33	252
	The Company					
Less than one year	85	21	64	63	15	48
Between one and five years	249	22	227	180	14	166
	334	43	291	243	29	214

The Group's lease liabilities are secured by the leased assets of $2,284 thousand (2006: $254 thousand), as in the event of default, the leased assets revert to the lessor.

The Group motor vehicle finance lease liabilities of $309 thousand (2006: $252 thousand) expire from one to four years. At the end of the lease term, the Group has the option to purchase the motor vehicles at 0 to 50 per cent of market value, a price deemed to be a fair purchase option. The Group plant and equipment finance lease liability of $910 thousand (2006: nil) expires in five years. At the end of the lease term the Group is entitled to claim ownership of the assets.

22. Employee benefits

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Current				
Salaries and wages accrued	77	30	17	9
Liability for annual leave	354	269	117	87
Total employee benefits - current	431	299	134	96
Non-current				
Liability for long service leave	226	138	97	48
Liability for retirement benefit	44	-	44	-
Total employee benefits – non-current	270	138	141	48

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Notes to the financial statements

22. Employee benefits (continued)

Defined contribution superannuation funds

The consolidated entity contributes to several defined contribution funds nominated by the employees for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The funds are administered by independent corporate trustees.

The amount recognised as an expense was $513 thousand for the financial year ended 30 June 2007 (2006: $379 thousand).

Retirement benefit

All directors of the Company are entitled to receive a post-employment cash benefit at the date of their retirement as director of the Company. The benefit is calculated on $15,000 for each year, or pro rata for part of a year, of service as director of the Company commencing from 1 July 2006. This benefit, under all circumstances, will not exceed the payment limit calculated in accordance with S200G(2) of the Corporations Act 2001.

The amount recognised as an expense was $50 thousand for the financial year ended 30 June 2007 (2006: nil).

Share based payments

The Company has an Employee Share Option Plan (ESOP) approved by the shareholders at the Company's annual general meeting on 29 September 2000.

The ESOP is available to all eligible employees to receive options over ordinary shares for no consideration. Each option is convertible to one ordinary share. The exercise price of the option is determined in accordance with the rules of the plan. The entitlement of each employee was determined by the Board.

To be eligible, employees must be employed by any entity in the consolidated entity at the time of grant. Share options are issued in the name of the participating employee. All options are to be settled by physical delivery of shares.

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

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

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

During the reporting period 6,835,000 options were exercised and 8,480,000 options expired. There were no options outstanding at the end of the financial year.

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Notes to the financial statements

22. Employee benefits (continued)

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2007	Number of options 2007	Weighted average exercise price 2006	Number of options 2006
Outstanding at 1 July	$0.08	15,315,000	$0.08	15,315,000
Exercised during the period	$0.08	6,835,000	$0.08	-
Expired during the period	$0.08	8,480,000	$0.08	-
Outstanding at 30 June	-	-	$0.08	15,315,000
Exercisable at 30 June	-	-	$0.08	12,815,000

The weighted average share price at the date of exercise for share options exercised in the 2007 financial year was $0.078 (2006: no options exercised).

23. Provisions

In thousands of AUD	Site restoration	Waste disposal	Penalty payment	Total
Consolidated				
Balance at 1 July 2006	775	406	-	1,181
Provisions used during the period	(51)	(18)	-	(69)
Provision made during the period	-	17	3	20
Provision reversed during the period	(8)	(69)	-	(77)
Balance at 30 June 2007	716	336	3	1,055
Non-current	-	-	3	3
Current	716	336	-	1,052
	716	336	3	1,055
The Company				
Balance at 1 July 2006	15	-	-	15
Provision used during the period	(7)	-	-	(7)
Provision made during the period	-	-	3	3
Provision reversed during the period	(8)	-	-	(8)
Balance at 30 June 2007	-	-	3	3
Non-current	-	-	3	3

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Notes to the financial statements

23. Provisions (continued)

Site restoration

A provision of $560 thousand was made in previous financial years in respect of environmental clean-up costs of a disposal pond located at the site of a subsidiary. The removal of the pond will improve the value of the site and it is the intention of the Company to carry out the work once resources are available.

The Group has certain operations located at clients' sites to provide on-site services to these clients. Upon termination of the services, the sites are to be returned to the clients in original condition. A provision of $215 thousand was made in previous financial years in respect of these site restorations. 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 Group. Because of no definite terms of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Group has assumed that the sites will be restored using technology and materials that are available currently. As the timing of when the expenditure will be required to be incurred is uncertain, and could be within 12 months, the provision has not been discounted.

During the 2007 financial year the Company terminated the service provided to one of these clients and the site restoration was completed at a cost of $7 thousand. The unused provision of $8 thousand was reversed.

Waste disposal

Hazardous by-products are produced during the manufacturing processes carried on by HydroMet Operations (Southern) Limited, MinMet Operations Pty Limited and HydroMet Operations Limited. The subsidiaries have established strict procedures to ensure that all such hazardous by-products are disposed of safely.

Provisions have been made for the estimated costs of disposal of these by-products on hand during the previous financial years. These provisions are sufficient to meet the disposal requirements of current environmental legislation. However, these operations are subject to rapidly changing environmental legislation in various jurisdictions and potential future obligations to meet changing environmental legislation. The directors are not aware of any impending changes to the disposal requirements or of any current breaches of legislation.

Penalty interest

In March 2007, the Company issued $450,000 Convertible Notes at their face value. The notes have a coupon rate of 9% per annum and mature in 30 months from date of issue. The notes are convertible to ordinary shares of the Company at the price of 10 cents per share on or at any time before their maturity. The notes will be redeemed at their face value on maturity if the holders fail to convert the notes to ordinary shares. A penalty payment of 5% of the face value of the notes will be paid to the holders on redemption if the Group fails to achieve a basic earning per share of 1 cent in 2009 financial year and the share price is less than ten cents. During the 2007 financial year the Company has provided $3 thousand for this penalty payment.

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Notes to the financial statements

24. Trade and other payables, incl. derivatives

	Note	Consolidated		Company	
In thousands of AUD		**2007**	**2006**	**2007**	**2006**
Trade payables		2,117	1,002	73	159
Non-trade payables and accrued expenses		823	436	20	74
Derivatives	25	155	-	-	-
Liabilities for financial guarantees		-	-	82	-
		3,095	1,438	175	233

Payables denominated in currency other than the functional currency comprise $164 thousand of trade payables denominated in U.S. Dollar; (2006: nil denominated in U.S. Dollar; $7 thousand denominated in Pounds Sterling and $37 thousand in NZ dollars).

The Company guaranteed an import loan of a subsidiary in 2006. The import loan was transferred to an asset lease liability in 2007. Under the terms of the financial guarantee contract, the Company or the Group will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due.

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

In thousands of AUD	Year of maturity	30 June 2007 Face value	30 June 2006 Face value
Import loan	2006	-	1,043
Lease liability of subsidiary	2011	910	-

The Company has also entered into a Deed of Cross Guarantee with certain subsidiaries as described in note 33. Under the terms of the Deed, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up. Details of the consolidated financial position of the Company and subsidiaries party to the Deed are set out in note 33.

The method used in determining the fair value of these guarantees has been disclosed in note 4 Determination of Fair Values.

25. Financial instruments

Exposure to credit, interest rate, currency and metal price risks arise in the normal course of the Company's and the Group's business. Derivatives are used to hedge exposure to fluctuations in foreign exchange rates and base metal prices.

Credit risk

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

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

Interest rate risk

The Group's fixed-rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not exposed to interest rate risk.

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Notes to the financial statements

25. Financial instruments (continued)

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the reporting date and the periods in which they mature or, if earlier, reprice.

In thousand of AUD	Note	Average effective interest rate	Total	6 months or less	6-12 months	1-2 years	2 to 5 years
Consolidated							
2007							
Fixed rate instruments							
Cash and cash equivalents	17a	6.1%	1,628	1,628	-	-	-
Finance lease liabilities	21	7.8%	1,219	127	132	277	683
Secured bank loans – USD	21	8.00%	800	800	-	-	-
Debentures	21	13.47%	1,633	799	834	-	-
Convertible notes	21	9.88%	413	-	-	-	413
2006							
Cash and cash equivalents	17a	5.75%	2,474	2,474	-	-	-
Lease liabilities	21	8.3%	252	35	31	47	139
Secured bank loan - AUD	21	9.52%	1,043	-	1,043	-	-
Debentures	21	13.25%	1,913	392	707	814	-

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. dollars (USD) and New Zealand dollars (NZD).

Depending on the movement trend of the currencies, the Group hedges a portion of its trade receivable and trade payable denominated in a foreign currency. The Group uses forward exchange contracts to hedge its foreign currency risk. All of the forward exchange contracts have maturities of less than one year after the reporting date. Where necessary, the forward exchange contracts are rolled over at maturity.

In respect of other monetary assets and liabilities held in currencies other than AUD, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. The Company maintains a short term USD bank deposit and utilises the deposit to settle USD liabilities when they are due for payment.

The principal amounts of the Group's USD bank loan (see note 21) is expected to be hedged with forecast sales of products denominated in USD receivable on the same time as the loans are due for repayment.

Metal price risk

The Group is exposed to metal price risk on sales and purchases that are determined according to metal prices in post-sales/purchase quotation periods.

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

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

25. Financial instruments (continued)

Forecast transactions

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. The fair value of the forward exchange contract used as a hedge of forecast transactions at 30 June 2007 was assets of $5 thousand (2006: nil).

The Group classifies its commodity swap contracts hedging forecast metal selling transactions as cash flow hedges. The fair value of the commodity swap transaction contract used as a hedge of forecast transactions at 30 June 2007 was liabilities of $155 thousand (2006: nil).

Sensitivity analysis

In managing currency and metal price risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and metal price will have an impact on profit.

At 30 June 2007 it is estimated that a general increase of one percentage point in the value of the AUD against other foreign currencies would decrease the Group's profit before income tax by approximately $129 thousand for the year ended 30 June 2007 ($2006: $33 thousand). The forward exchange contracts have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of the metal prices would increase the Group's profit before income tax by approximately $105 thousand for the year ended 30 June 2007 (2006: $23 thousand). The commodity swap transaction contracts have been included in this calculation.

Fair values

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

Estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in note 4.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows where applicable, are based on the government yield curve at 30 June 2007 plus an adequate constant credit spread, and are as follows:

	2007	2006
Loans and borrowings	8.00% - 14.50%	9.52% - 14.50%
Leases	7.20% - 8.81%	6.65% - 12.91%

26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Less than one year	12	12	2	4
Between one and five years	4	4	2	2
	16	16	4	6

The Company and the Group lease a number of small items of capital equipment under operating leases. The leases typically run for a period of 3 to 5 years. None of the lease agreements include contingent rentals. During the year ended 30 June 2007 $14 thousand was recognised as an expense in the income statement in respect of operating leases (2006: $47 thousand).

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Notes to the financial statements

27. Capital and other commitments

	Consolidated		Company	
In thousands of AUD	**2007**	**2006**	**2007**	**2006**
Capital expenditure commitments				
Building improvement				
Contracted but not provided for and payable:				
Within one year	4	560	-	-

28. Contingencies

Contingent liabilities not considered remote

Royalty payment

Under the terms of a royalty agreement entered into by a subsidiary, the consolidated entity has an obligation to pay a total of $600 thousand (2006: $600 thousand) to two parties if a decision to mine is made on an exploration and evaluation asset. A further royalty payment of 1% of the net smelter return generated from the sale of any mineral produced from the assets is payable to a party for a period of 10 years from the date on which commercial mining commences.

29. Related parties

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Mr. Timothy R Allen (Deputy Chairperson)
Mr Stephen H Kwan
Mr Stephen B Wolfe (resigned 23 November 2006)

Executive directors

Dr Lakshman D Jayaweera (Chairperson)
Mr Gregory W Wrightson (Managing Director)
Mr Pipvide S Tang (Finance Director)

Executive

Mr. Ian P Wilson (Group general manager – operation, appointed 2 April 2007)

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 8) is as follows:

	Consolidated		Company	
In AUD	**2007**	**2006**	**2007**	**2006**
Short-term employee benefits	786,185	693,648	786,185	693,648
Post-employment benefits	143,148	42,811	143,148	42,811
	929,333	736,459	929,333	736,459

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Notes to the financial statements

29. Related parties (continued)

Individual directors and executives compensation disclosures

Information regarding individual directors and executive compensation and some equity instruments disclosures as permitted by Corporations Regulation 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' report on pages 10 to 16.

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

Other key management personnel transactions

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

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

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

In AUD			Transactions value year ended 30 June		Balance outstanding as at 30 June	
Related parties tokey management personnel	**Transaction**	**Note**	**2007**	**2006**	**2007**	**2006**
Mr TR Allen – Lenvat Pty Limited	Consulting	*(i)*	10,000	37,500	-	37,500
Mr SB Wolfe – Tennant Limited	Sales revenue	*(ii)*	29,040	-	29,040	-
Mr SB Wolfe – Tennant Limited	Inventory purchase	*(iii)*	-	26,756	-	-

(i) The Company used the consulting services of Lenvat Pty Limited, a company significantly influenced by Mr TR Allen to provide advice over the issue of convertible notes. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Company sold chemical product to Tennant Limited, a company significantly influenced by Mr SB Wolfe. Amounts were billed based on normal market rates for such supplies 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.

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Notes to the financial statements

29. Related parties (continued)

Other key management personnel transactions (continued)

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

	Consolidated		Company	
In AUD	**2007**	**2006**	**2007**	**2006**
Assets and liabilities arising from the above transactions				
Other related parties				
Trade debtors	29,040	-	-	-
Current receivables/total assets	29,040	-	-	-
Current payables				
Other related parties				
Trade creditors	-	17,500	-	17,500
Total payables/total liabilities	-	17,500	-	17,500

From time to time, key management personnel of the Group, its subsidiaries or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

Options and rights over equity instruments

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

	Held at 1 July 2006	Exercised	Expired	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors						
Mr TR Allen	2,000,000	(500,000)	(1,500,000)	-	500,000	-
Mr SH Kwan	2,000,000	-	(2,000,000)	-	500,000	-
Dr LD Jayaweera	2,000,000	(2,000,000)	-	-	500,000	-
Mr GW Wrightson	2,000,000	(2,000,000)	-	-	500,000	-
Mr PS Tang	2,000,000	(2,000,000)	-	-	500,000	-

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

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

29. Related parties (continued)

Options and rights over equity instruments (continued)

No options held by key management personnel are vested but not exercisable at 30 June 2006. No options were outstanding as at 30 June 2007.

No options were held by key management person related parties.

Movements in shares

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

	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Held at 30 June 2007
Directors					
Mr TR Allen	2,300,000	-	500,000	(1,000,000)	1,800,000
Mr SH Kwan	46,000	-	-	-	46,000
Mr SB Wolfe	25,000,000	-	-	(25,000,000)	-
Dr LD Jayaweera	41,544,395	12,983,116	2,000,000	(20,000,000)	36,527,511
Mr GW Wrightson	578,300	-	2,000,000	(1,500,000)	1,078,300
Mr PS Tang	859,000	-	2,000,000	-	2,859,000

	Held at 1 July 2005	Purchases	Received on exercise of options	Sales	Held at 30 June 2006
Directors					
Mr TR Allen	2,300,000	-	-	-	2,300,000
Mr SH Kwan	46,000	-	-	-	46,000
Mr SB Wolfe	25,000,000	-	-	-	25,000,000
Dr LD Jayaweera	18,091,485	23,452,910	-	-	41,544,395
Mr GW Wrightson	578,300	-	-	-	578,300
Mr PS Tang	80,000	779,000	-	-	859,000

No shares were granted to key management personnel during the reporting period as compensation in 2006 or 2007.

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Notes to the financial statements

29. Related parties (continued)

Non-key management personnel disclosures

Subsidiaries

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

For the financial year ended 30 June 2007, the following loans have been recognised as payable from/to subsidiaries:

In thousands of AUD	
Subsidiary	**Receivable**
Hydromet Operations Limited	22,281
Less: Impairment loss	19,919
	2,362
Hydromet Operations (Southern) Limited	11,457
Less: Impairment loss	912
	10,545
Hydromet Operations (Tasmania) Limited	585
	13,492
	Payable
Minmet Trust	10,039
Mineral Estates Limited	2,566
Hydromet Corporation Debenture Nominees Pty Limited	839
	13,444

30. Group entities

	Country of incorporation	Ownership interest 2007 %	2006 %
Parent entity			
HydroMet Corporation Limited			
Significant subsidiaries			
■ HydroMet Operations (Southern) Limited	Australia	100	100
■ HydroMet Technologies Pty Limited	Australia	100	100
■ HydroMet Operations (NT) Pty Limited	Australia	100	100
■ HydroMet Operations (Tasmania) Pty Limited	Australia	100	100
■ Mineral Estates Pty Limited	Australia	100	100
Subsidiaries of which are:			
- MinMet Operations Pty Limited	Australia	100	100
- Kia Pacific Gold Pty Limited	Australia	100	100
■ HydroMet Operations Limited	Australia	100	100
Subsidiary of which is:			
- Enviromet Operations Pty Limited	Australia	100	100
■ MinMet Unit Trust	Australia	100	100
■ Hydromet Corporation Debenture Nominees Pty Limited	Australia	100	100

In the financial statements of the Company investments in subsidiaries are measured at cost less impairment loss.

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

31. Subsequent events

Subsequent to 30 June 2007, the Group has been advised by its customer Smorgon Steel that they have entered into an agreement to place their Electric Arc furnace Dust with a competitor under economic consideration. The Group is pursuing other identified opportunities available for the Unanderra facility and believe Smorgon Steel's decision will have a minimum impact on overall future results of the Group.

32. Auditors' remuneration

	Consolidated		Company	
In AUD	**2007**	**2006**	**2007**	**2006**
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	91,829	76,910	91,829	76,910
Audit of first time AIFRS adoption	-	20,829	-	20,829
	91,829	97,739	91,829	97,739
Other regulatory audit services				
Auditors of the Company				
KPMG Australia				
Workers compensation review	1,050	1,050	1,050	1,050
Research & development review	-	3,500	-	3,500
Other services				
KPMG Australia				
Taxation compliance services	5,500	13,270	5,500	13,270
Overseas KPMG Firms:				
Taxation services	12,019	15,350	12,019	15,350
	18,569	33,170	18,569	33,170

33. Deed of cross guarantee

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

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The Deed meets the definition of a financial guarantee contract. The fair value of the deed is considered immaterial at inception as it is unlikely that one of the entities party to the deed will become insolvent and would up during the time the deed is in existence.

The subsidiaries subject to the deed are:

- Hydromet Operations Limited:
- Hydromet Operations (Southern) Limited;
- Hydromet Operations (Tasmania) Limited;
- Hydromet Operations (NT) Pty Limited;
- Enviromet Operations Pty Limited; and
- Hydromet Corporation Debenture Nominees Pty Limited

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Notes to the financial statements

33. Deed of cross guarantee (continued)

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2007 is set out as follows:

Summarised income statement and retained profits

	Consolidated	
In thousands of AUD	**2007**	**2006**
Profit/(loss) before tax	1,108	(1,124)
Income tax credit	12	159
Profit/(Loss) after tax	1,120	(965)
Accumulated losses at beginning of year	(58,659)	(57,694)
Accumulated losses at end of year attributable to equity holders of the Company	(57,539)	(58,659)

Balance sheet	**Consolidated**	
In thousands of AUD	**2007**	**2006**
Assets		
Cash and cash equivalents	1,569	2,367
Trade and other receivables	3,174	1,934
Inventories	1,320	231
Total current assets	6,063	4,532
Investments in equity accounted investees	7,986	6,738
Property, plant and equipment	7,685	6,221
Intangibles	663	663
Total non-current assets	16,334	13,622
Total assets	22,397	18,154
Liabilities		
Trade and other payables including derivatives	2,395	1,246
Loans and borrowings	1,887	2,203
Employee benefits	256	198
Provisions	69	127
Total current liabilities	4,607	3,774
Loans and borrowings	9,519	8,716
Provisions	158	215
Employee benefits	217	98
Total non-current liabilities	9,894	9,029
Total liabilities	14,501	12,803
Net assets	7,896	5,351
Equity		
Share capital	65,585	64,010
Reserves	(150)	-
Accumulated losses	(57,539)	(58,659)
Total equity	7,896	5,351

Hydromet Corporation Limited 30 June 2007 Annual Financial Report

Directors' declaration

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

(a) the financial statements and notes and the remuneration disclosures that are contained in sections 4.3.1, 4.3.2, 4.3.4, 4.3.5 and 4.3.7 of the Remuneration report in the Directors' report, set out on pages 30 to 74, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

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

(b) the remuneration disclosures that are contained in sections 4.3.1, 4.3.2, 4.34, 4.3.5 and 4.3.7 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

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

2 There are reasonable grounds to believe that the Company and the Group entities identified in Note 33 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 group entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the managing director and finance director for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the directors:

Dated at Wollongong this 28th day of August 2007.

Gregory Wrightson
Director

Independent auditor's report to the members of Hydromet Corporation Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Hydromet Corporation Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 33 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in sections 4.3.1, 4.3.2, 4.3.4, 4.3.5 and 4.3.7 of the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Hydromet Corporation Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in sections 4.3.1, 4.3.2, 4.3.4, 4.3.5 and 4.3.7 of the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

KPMG

KPMG

Warwick Shanks
Partner

Signed at Wollongong this 28th day of August 2007

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Hydromet Corporation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

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

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

KPMG

KPMG

Warwick Shanks
Partner

Signed in Wollongong this 28th day of August 2007.

ASX additional information

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

Shareholdings (as at 23 August 2007)

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

Shareholder	Number
Chemmet Pty Limited	36,527,511
HSBC Custody Nominees (Australia) Limited	19,235,500
Bradleys Polaris Pty Ltd	16,669,717

Voting rights
Ordinary shares
Refer to Note 19 in the financial statements.

Options
There are no voting rights attached to the options.

Convertible notes
There are no voting rights attached to convertible notes.

Distribution of equity security holders

	Number of equity security holders	
Category	**Ordinary shares**	**Convertible notes**
1 - 1,000	307	-
1,001 - 5,000	350	-
5,001 - 10,000	272	-
10,001 - 100,000	1,039	-
100,001 and over	355	2
	2,323	2

The number of shareholders holding less than a marketable parcel of ordinary shares is 676.

Unquoted equity securities
Convertible notes
As at 23 August 2007, convertible notes were held by:

	Number of Convertible notes held	Percentage of convertible notes held
Linkenholt Pty Limited	200,000	44.4
SSOR Pty Limited	250,000	55.6
	450,000	100.0

ASX additional information (continued)

Securities Exchange
The Company is listed on the Australian Securities Exchange. The home exchange is Sydney.

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

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	Chemmet Pty Limited	32,580,011	10.33
2	HSBC Custody Nominees (Australia) Limited	19,235,500	6.10
3	Bradleys Polaris Pty Ltd <Bradley S/F A/C>	16,669,717	5.28
4	Colombo Fort Pty Limited	8,534,024	2.71
5	Picasso Holdings International Limited	8,500,000	2.69
6	Minemet Australasia Pty Ltd	7,132,057	2.26
7	Mrs Selina Wu	5,910,859	1.87
8	Mr. John Charles Thomas Lee & Ms Anne Lynette Meier <The John Lee Super Fund A/C>	5,115,000	1.62
9	HNS Investments Pty Ltd	5,000,000	1.58
10	Rizzo Super Pty Ltd <Rizzo Super Fund A/C>	5,000,000	1.58
11	Universal Magazines Pty Ltd	5,000,000	1.58
12	Chemmet Pty Limited <Super Fund A/C>	3,947,500	1.25
13	Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	3,723,782	1.18
14	Brian Gregory Wright & Wendy Joy Wright <B G Wright Super Fund A/C>	3,707,163	1.18
15	Mr. Paul James Guerin	3,649,800	1.16
16	Sylvan Securities Pty Ltd <TheGray Super Fund Account>	3,500,000	1.11
17	Rixon Pass Pty Ltd	3,039,500	0.96
18	Citicorp Nominees Pty Limited	3,031,477	0.96
19	Mr Gordon Menzies Wilson	2,890,445	0.92
20	Mr Edmond Wing Kin Cheung & Mrs Eliza Siu Ling Cheung <Edmond & Eliza S/F A/C>	2,500,000	0.79
		148,666,835	47.11