

# **HYDROMET CORPORATION LIMITED**

ABN 71 002 802 646

## **ENTITLEMENTS ISSUE OFFER DOCUMENT**

**An Offer of New Options  
as a fully underwritten, non-renounceable issue  
to holders of Shares on the basis of  
1 New Option for every existing Share held on the Record Date  
at an issue price of \$0.01 per New Option plus a piggy-back option**

**Underwriters**

**Martin Place Securities Pty Ltd  
ACN 094 927 947**

**An investment in New Options offered under this Offer Document should be considered speculative.**

**This document is important and requires your immediate attention. It should be read in its entirety before deciding to participate. If you are in doubt as to whether to accept your Entitlement, you should consult your stockbroker or other professional adviser.**

## CORPORATE DIRECTORY

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There are risks associated with investing in industrial companies such as Hydromet Corporation Limited. Some of these risks are set out in **Section 4** of this Offer Document.

*Shareholders' enquiries should be directed to:*  
Pip Tang on +61 2 4271 1822

## **IMPORTANT NOTICES**

This Offer Document is dated 24 May 2010 and was lodged with ASIC and ASX on that date. Neither ASX nor ASIC, nor any of their officers, take any responsibility for the content of this Offer Document.

As the Company's securities are 'continuously quoted securities' (within the meaning given in the Corporations Act 2001), this Offer Document is issued pursuant to section 713 of the Corporations Act 2001. In general terms, a prospectus issued under that section is only required to contain information regarding the effect of the offer on the issuer, the rights and liabilities attaching to the options (and shares issued on conversion) and other specified forms of information. It is not required to, and this Offer Document does not, contain the same level of disclosure as required for an initial public offering of securities. Further information about the Company is publicly available and can be obtained from ASIC and ASX (including at its website: [www.asx.com.au](http://www.asx.com.au)). The contents of any ASIC and ASX filing are not incorporated into this Offer Document and do not form part of the Offer. Investors should have regard to the Company's public filings with ASX and ASIC before making a decision whether or not to accept their Entitlement.

No offer is being made to Shareholders with a registered address outside Australia or New Zealand. The distribution of this Offer Document and the Entitlement and Acceptance Form (including electronic copies) outside those jurisdictions may be restricted by law. If you come into possession of these documents, you should observe such restrictions and should seek your own advice about such restrictions.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Offer Document. Any such extraneous information or representation may not be relied upon.

Applications for New Options by Eligible Shareholders may only be made on an original Entitlement and Acceptance Form as sent with this Offer Document. The Entitlement and Acceptance Form sets out the Entitlement of an Eligible Shareholder to participate in the Offer. Please read the instructions in this Offer Document and on the accompanying Entitlement and Acceptance Form regarding the acceptance of your Entitlement. By returning an Entitlement and Acceptance Form in accordance with the instructions on the Entitlement and Acceptance Form, you acknowledge that you have received and read this Offer Document, you have acted in accordance with the terms of the Offer detailed in this Offer Document and you agree to all of the terms and conditions as detailed in this Offer Document.

No securities will be offered on the basis of this Offer Document after the Closing Date.

An investment in the Company should be considered speculative. Please refer to Section 4 relating to investment risks.

This Offer Document contains important information and requires your immediate attention. It should be read in its entirety. If you are in any doubt as to how to deal with this Offer Document, you should consult your professional adviser as soon as possible.

## KEY DATES

The following key dates are indicative and may be subject to change without notice:

Announcement of Offer	24 May 2010
Lodgement of this Offer Document and Appendix 3B with ASIC and ASX	24 May 2010
Send notice to existing shareholders and option holders containing information required by ASX Listing Rules	24 May 2010
Existing Shares trade ex-entitlement to participate in the Offer	31 May 2010
Record Date to determine entitlement to participate in the Offer	4 June 2010
Despatch of Offer Document and Entitlement and Acceptance Forms	10 June 2010
Closing Date for acceptance of applications for New Options	7 July 2010
New Options commence trading on a deferred settlement basis	8 July 2010
Notification to ASX of shortfall	12 July 2010
Allotment date and despatch of Holding Statements	15 July 2010
Date of quotation by ASX of New Options	16 July 2010

## Letter from the Chairperson

Dear Shareholder,

### **Entitlements Issue**

On behalf of the directors of HydroMet Corporation Ltd (HydroMet - ASX Code; HMC) I am pleased to inform you that, as part of our current capital raising programme to become a leading metal recycler, the board has resolved to offer our shareholders an opportunity to purchase HydroMet share Options at a price of 1 cent per option. The Options are exercisable at 4 cents anytime over the next 2 years. This opportunity will be given to all Australian and New Zealand resident shareholders with an entitlement of one option for every share currently held on the Record Date.

Shareholders may also apply for options in excess of their entitlements which will be allocated on a pro-rata basis to existing shareholdings should there be a shortfall in entitlement applications.

The Board is also pleased to inform you that this offer is fully underwritten by Martin Place Securities Pty Ltd, thus enabling the Company to fulfil the task of raising a total of \$4.5 million.

As you are aware HydroMet has entered a very exciting and strategic growth phase which involves the planned installation of our secondary lead smelter project to produce lead bullion from our battery recycling operation along with development work to process other lead bearing materials such as E-Waste and smelter residues, and wastes which would be directly complimentary to our lead smelting activities.

We estimate the total funds required for the above activities will be in the range of \$12-13 million of which we have secured \$4 million from the Share Purchase Plan completed in December 2009, the share placements completed in February 2010 and from internal working capital. Furthermore we have also received conditional equipment finance approval from our principal banker for up to \$5 million. The remaining funds required are expected to be provided by this offer.

In the four months to April 2010, all our operations have performed reasonably well under the current economic conditions. The battery recycling plant processed 9,700mt of batteries achieving record throughput of 3,500 tonnes in the month of March. Our lead products produced from the plant are well sought after by our overseas smelter customers. We have successfully penetrated into the Australia-wide battery collection market despite intense pressure from our competitors. In regard to selenium and tellurium activities we have also achieved record production during the period with selenium price remaining above US\$30/lb and tellurium above US\$100/lb due to strong demand for the metals.

As previously announced, in February 2010, the Company performed well in the first half of the financial year 2010 reporting a pre tax profit of \$ 1.15 million with sales revenue of \$19.5 million. The unaudited internal financial report indicated the Company made a moderate profit in the four months to April with sales revenue of \$15.1 million. The result was mainly affected by depressed lead price during the period. The cash reserve as at 30 April 2010 amounted to \$4.8 million.

Our lead recycling, selenium and precious metals processing activities have been established as solid contributors to our revenue streams attracting worldwide attention. With the above proposed capital investments, particularly the secondary lead smelting project, we expect the company's revenue to gradually increase up to \$ 70 million over in the next 2 years.

Over the last two years, Hydromet shares have fluctuated from 12.5 cents to 3.1 cents and were traded at 3.8 cents on 21 May 2010. The Board believes that the proposed offering is a very attractive investment for our shareholders.

On behalf of the Board I encourage all shareholders to support this entitlements issue of options to take your company to the next stage of this important development over the coming 18 months. The terms and conditions of the offer are outlined in the enclosed document. Participation in the plan is entirely voluntary. Eligible shareholders should seek independent professional advice before applying for options.

I look forward to your positive response.

Yours Sincerely

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

Dr Lakshman Jayaweera  
Chairperson

## 1. THE OFFER

### 1.1 Details of the Offer

#### 1.1.1 Offer of New Option

Hydromet Corporation Limited (“**Hydromet**” or the “**Company**”) is making a fully underwritten, non-renounceable pro rata offer of Options (the “**Offer**”). Shareholders with a registered address in Australia or New Zealand (“**Eligible Shareholders**”) will be entitled to apply for 1 Option for every existing Share held in the capital of the Company on the Record Date.

Each New Option will be issued at an issue price of \$0.01 per Option and may be exercised up to 30 June 2012 for \$0.04 per Option.

Each New Option will carry an additional right whereby for each New Option exercised by 30 September 2010, one additional option will be issued at no cost to the optionholder (“**Piggy Back Option**”). Each Piggy Back Option will entitle the optionholder to acquire one new fully paid ordinary share in the capital of the Company at an exercise price of \$0.08 and may be exercised up to 30 September 2012.

The Record Date for the purpose of the Offer is 5.00 pm (Sydney time) on 4 June 2010 and the Closing Date for Eligible Shareholders to lodge their Entitlement and Acceptance Forms and make payment is 5.00 pm (Sydney time) on 7 July 2010. The number of New Options to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. Eligible Shareholders may also subscribe for a greater number of New Options than is shown on the Entitlement and Acceptance Form accompanying this Offer Document by participating in the Shortfall Facility as detailed in **Section 1.5**.

At the date of this Offer Document, the Company has on issue 454,512,280 fully paid Shares and 8,760,000 listed options and 18,280,000 unlisted options (the “Existing Options”). The Existing Options carry no entitlement to participate in the Offer. The Company expects that approximately 454,512,280 New Options will be issued under the Offer which will raise \$4,545,122.80. This number may increase if any of the Existing Options are exercised prior to the Record Date.

The New Options will form a new class of equity security. The Company will apply to ASX within seven days of the date of this Offer Document to have the New Options listed for official quotation.

The table below shows the lowest and highest trading prices of the Company's Shares on ASX during the past 12 months and the latest sale prices of the Shares on ASX prior to the date of the Offer Document.

	<b>Shares prices and dates</b>
High price and date	6.0 cents on 21 September 2009
Low price and date	3.1 cents on 5 May 2010
Latest price and date	3.8 cents on 21 May 2010

## **1.2 Purpose of the Offer**

The amount the Company expects to raise from the Offer is \$4,545,122.80. The Company intends to use the funds raised to provide additional funding for its secondary lead smelter at Tomago and to meet the Company's working capital requirements, including the costs of the Offer.

## **1.3 Application for listing New Options on ASX**

The Company will apply to ASX within seven days of the date of this Offer Document for official quotation by ASX of the New Options offered under this Offer Document. As part of the application, the Company has sought and received a waiver of ASX Listing Rule 7.16. Listing Rule 7.16 prohibits a company from having more options on issue than underlying shares. As the Company currently has 27,040,000 existing options on issue, if this Offer is fully subscribed the Company will have 481,552,280 options on issue, but only 454,512,280 Shares on issue.

If application is not made or if quotation is denied by ASX within three months after the date of this Offer Document, or if for any other reason the Offer does not proceed, all application monies received will be refunded in full without interest and no New Options will be issued.

The ASX takes no responsibility for the contents of this Offer Document. The fact that the ASX may grant official quotation of the New Options is not to be taken in any way as an indication of the merits of the Company, the Offer or the New Options under this Offer Document.

## **1.4 Treatment of non-Australian and Non-New Zealand Shareholders**

Neither this Offer Document nor the Entitlement and Acceptance Form constitutes an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

The Company will not make an Offer to Shareholders with a registered address outside Australia or New Zealand ('**Excluded Shareholders**'). The Company has decided that it is unreasonable to extend the Offer to Excluded Shareholders having regard to:

- (a) the number of Shareholders in each jurisdiction outside Australia and New Zealand;
- (b) the number and value of New Options that would be offered to Shareholders in each jurisdiction outside of Australia and New Zealand; and
- (c) the cost of complying with the legal requirements, and requirements of regulatory authorities, in each jurisdiction outside of Australia and New Zealand.

The Company will send to each Excluded Shareholder details of the issue and advise that the Company will not offer New Options to that Shareholder.

The Directors reserve the right to treat as invalid any Entitlement and Acceptance Form that appears to the Directors or the Company's agents to have been submitted in violation of any applicable securities laws.

### **1.5 Shortfall Facility**

Eligible Shareholders may subscribe for a greater number of New Options than is shown on the Entitlement and Acceptance Form accompanying this Offer Document (“**Shortfall Subscribers**”). Subscriptions in excess of Entitlements will be allotted out of the shortfall, if any, of the total number of New Options subscribed for compared to the total number of New Options offered under this Offer Document (**'Shortfall Facility'**).

If the number of New Options subscribed for in excess of Entitlements exceeds the number of Options available under the Shortfall Facility, the New Options subscribed for in excess of Entitlements will be issued on a pro-rata basis to Shortfall Subscribers. Any surplus application monies will be returned to the Shortfall Subscribers.

Any New Options not taken up under the Shortfall Facility will be dealt with under the terms of the Underwriting Agreement.

### **1.6 No rights trading**

The rights to New Options under the Offer are non-renounceable. Accordingly, there will be no trading of rights on ASX and you may not transfer your rights to subscribe for New Options under the Offer to any other party. If you do not take up your Entitlement to subscribe to New Options under the Offer by the Closing Date, the Offer to you will lapse.

### **1.7 Underwriting Agreement**

The Company and Martin Place Securities Pty Limited (**'MPS'**) have entered into an Underwriting Agreement dated 19 May 2010 whereby **MPS** has agreed to underwrite all the New Options to be issued under the Offer. Pursuant to the Underwriting Agreement, the Company has given warranties and covenants to **MPS** which are customary in an agreement of this nature.

**MPS** is an unrelated party of the Company. The terms and conditions of the Underwriting Agreement, which are set out in **Section 5.1** are on arms length commercial terms.

### **1.8 Marketing Assistance Agreement**

The Company and **MPS** have entered into a Marketing Assistance Agreement dated 19 May 2010 whereby **MPS** has agreed to provide the Company with investor and public relation services and assistance in the marketing of the Company's securities until 30 September 2010.

The Company has agreed to pay MPS a fee equal to 6% of the exercise price of New Options exercised by 30 September 2010, to a maximum of 25% of the number of the New Options to be issue under this Offer Document, for the provision of the services under the Marketing Assistance Agreement.

## **1.9 Continuous reporting and disclosure obligations**

The Company is a disclosing entity for the purpose of the Corporations Act and is, therefore, subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

In particular, the Company is subject to ASX's continuous disclosure obligation under ASX Listing Rule 3.1. This requires the Company to notify ASX immediately of any information concerning the Company, of which it becomes aware, which a reasonable person would expect to have a material effect on the price or value of the Company's securities. The Company is also required to prepare and lodge with ASIC and ASX both yearly and half yearly statements accompanied by an audit or review report. Copies of documents lodged with ASIC may be obtained from ASIC or inspected at an ASIC office.

The Company will provide free of charge to any person who asks before the Offer closes, a copy of:

- (a) the half yearly accounts of the Company for the year ended 31 December 2009 being the financial report of the Company most recently lodged with ASIC before the date of this Offer Document; and
- (b) any continuous disclosure notices given by the Company to ASX after the lodgement of the half-yearly accounts of the Company for the year ended 31 December 2009 with ASIC and before lodgement of a copy of this Offer Document with ASIC.

## **1.10 Enquiries**

If you have any enquiries in relation to this Offer Document, the Entitlement and Acceptance Form or your Entitlement, please contact Mr. Pip Tang by telephone on +61 2 4271 1822 or by facsimile on +61 2 4271 6151 or consult your professional adviser.

## **2. HOW TO ACCEPT YOUR OFFER**

Eligible Shareholders may apply for more New Options than is shown on the Entitlement and Acceptance Form accompanying this Offer Document and these applications will be dealt with as set out in **Section 1.5** of this Offer Document.

Your options with respect to the Offer are as follows:

- (a) if you wish to accept your Entitlement in full:
  - o complete the Entitlement and Acceptance Form, filling in the details in the spaces provided;

- attach your cheque for the amount indicated on the Entitlement and Acceptance Form; and
  - forward both of the above to Registries Limited at the address noted below; or
- (b) if you wish to accept your Entitlement in full and apply for more New Options than your Entitlement (under the Shortfall Facility):
- complete the Entitlement and Acceptance Form, filling in the details in the spaces provided, including the number of New Options you wish to apply for under the Shortfall Facility;
  - attach your cheque for the appropriate application monies (at \$0.01 per New Option); and
  - forward both of the above to Registries Limited at the address noted below; or
- (c) if you wish to accept part only of your Entitlement:
- fill in the number of New Options you wish to accept in the space provided on the Entitlement and Acceptance Form;
  - attach your cheque for the appropriate application monies (at \$0.01 per New Option);
  - forward both of the above to Registries Limited at the address noted below; or
- (d) if you do not wish to accept any of your Entitlement, you are not obliged to do anything.

Any part of your Entitlement not taken up will form part of the Shortfall Facility.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to '**Hydromet Corporation Limited**' and crossed '**Not Negotiable**'.

Your completed Entitlement and Acceptance Form and cheque must reach Registries Limited at the address below no later than 5:00pm (Sydney time) on the Closing Date:

***Mailing address – GPO Box 3993, Sydney, NSW 2001.***

***Delivery address – Level 7, 207 Kent Street, Sydney, NSW 2000.***

The Directors reserve the right to reject any applications for New Options that are not made in accordance with the terms of this Offer Document or the instructions on the Entitlement and Acceptance Form.

### **3. EFFECT OF THE OFFER ON THE COMPANY**

#### **3.1 Capital structure of the Company**

As at the date of this Offer Document, the Company has:

- 454,512,280 fully paid Shares on issue;
- 8,760,000 listed options each exercisable at \$0.17 to acquire one Share at any time until 30 June 2010; and
- 18,280,000 unlisted options, each exercisable at \$0.1676 to acquire one Share at any time until 30 June 2010.

The effect of the Offer on the Company's capital structure is as follows:

	Existing capital structure	New Options offered under this Offer Document	Capital structure after the Offer assuming full take up
Ordinary Shares	454,512,280 shares fully paid		454,512,280 shares fully paid
Existing Options Listed	8,760,000 options expire 30/6/2010.		8,760,000 options expire 30/6/2010.
Unlisted	18,280,000 options expire 30/6/2010.		18,280,000 options expire 30/6/2010.
New Options Listed		454,512,280 options expire 30/6/2012	454,512,280 options expire 30/6/2012

### 3.2 Statement of financial position

The impact of the Offer on the Company's balance sheet is detailed below.

	30 June 2009 \$000	31 December 2009 \$000	Proforma \$000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2,908	3,467	7,662
Trade and other receivables	4,835	7,894	7,894
Inventories	3,223	4,894	4,894
Derivatives	-	25	25
Prepayments	43	257	257
<b>TOTAL CURRENT ASSETS</b>	<b>11,009</b>	<b>16,537</b>	<b>20,732</b>
<b>NON-CURRENT ASSETS</b>			
Property, Plant and equipment	9,888	9,668	9,668
Deferred tax assets	3,688	3,341	3,341
Intangible assets	663	663	663
Other non-current assets	557	557	557
<b>TOTAL NON-CURRENT ASSETS</b>	<b>14,796</b>	<b>14,229</b>	<b>14,229</b>
<b>TOTAL ASSETS</b>	<b>25,805</b>	<b>30,766</b>	<b>34,961</b>

<b>CURRENT LIABILITIES</b>			
Trade and other payables	3,868	3,751	3,751
Borrowings	1,640	3,414	3,414
Employee benefits	740	752	752
Deferred Incomes	155	136	136
Derivatives	368	-	-
Short-term provisions	1,008	891	891
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,779</b>	<b>8,944</b>	<b>8,944</b>
<b>NON- CURRENT LIABILITIES</b>			
Borrowings	603	1,062	1,062
Employee benefits	230	306	306
Deferred tax liabilities	741	784	784
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,574</b>	<b>2,152</b>	<b>2,152</b>
<b>TOTAL LIABILITIES</b>	<b>9,353</b>	<b>11,096</b>	<b>11,096</b>
<b>NET ASSETS</b>	<b>16,452</b>	<b>19,670</b>	<b>23,865</b>
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	70,239	72,370	72,370
Reserves	705	1,032	5,227
Accumulated losses	(54,492)	(53,732)	(53,732)
<b>TOTAL EQUITY</b>	<b>16,452</b>	<b>19,670</b>	<b>23,865</b>

The above balance sheets have been prepared as follows:

- (a) The '30 June 2009' balance sheet is the Company's audited balance sheet as at 30 June 2009.
- (b) The '31 December 2009' balance sheet is the Company's audited balance sheet as at 31 December 2009.
- (c) The 'Proforma' balance sheet is based on the Company's '31 December 2009' balance sheet adjusted to reflect the issue of 454,512,280 New Options at \$0.01 each under the Offer, less the costs of the Offer estimated to be \$350,000.

#### 4. RISK FACTORS

This section identifies what the Directors regard as the major risks associated with an investment in the Company. This list of risk factors should not to be taken as exhaustive of the risks faced by the Company or by an investment in the Company. These risk factors and others not specifically referred to below may, in the future, affect the financial prospects, condition or performance of the Company and the value of the Shares issued on exercise of the New Options.

The nature of the Company's business and the fact that it is involved in investing in a secondary lead smelter increases the risks associated with an investment in the Company. Accordingly, an investment in the Company should be considered

speculative. The Directors make no representation that such activities will be successful. Intending subscribers should read the whole of this Offer Document in order to fully appreciate such matters and the manner in which the Company intends to operate before any decision is made to subscribe for New Options.

While the Directors believe that prudent management will minimise the risks to shareholders, investors need to consider the risks involved in an investment in the Company before making a decision whether or not to apply for New Options offered under this Offer Document.

#### **4.1 Company and industry risk factors**

The principal risk factors to the Company and/or its industry include the following:

##### ***Capital***

- (a) The Company has a low market capitalisation which may result in the Shares issued on exercise of the New Options being relatively illiquid.
- (b) In order to proceed with the development of any of its projects, the Company is likely to be required to raise additional equity or debt capital in the future. There is no assurance that it will be able to raise capital when it is required or that the terms associated with providing such capital will be satisfactory to the Company, which may prejudice the Company's ongoing ability to participate in these projects.

##### ***Staff***

- (c) The Company's future success depends on its continuing ability to retain and attract highly qualified technical and managerial personnel. Competition for such personnel can be intense and there can be no assurance that the Company will be able to retain its key managerial and technical employees or that it will be able to attract and retain additional highly qualified personnel in the future. The inability to attract and retain the necessary personnel could have a material and adverse effect upon the Company's business, results of operations and financial condition.

##### ***Financial performance***

- (d) The amount, timing and payment of any dividend will depend on a range of factors including future capital requirement, financial performance of its operations and the financial position generally of the Company at the time. There will also be factors that affect the ability of the Company to pay dividends and the timing of those dividends that will be outside the control of the Company and its Directors. The Directors are, therefore, unable to give any assurance regarding the payment of dividends in the future.

##### ***Operations and Development Risks***

- (e) Meeting operating targets for used lead acid battery processing throughput is affected by availability of scrap battery, their market price and competition for collection.

Delay in bringing the proposed lead secondary smelter to operation will affect the financial performance of the Company. The delay could be caused by late delivery of the equipment, delay in plant construction, familiarisation and training of smelter operators,

The financial performance could also be affected by the quality of the lead bullion to be produced by the smelter and meeting its licence operational conditions.

### ***Legislative and Policy Changes***

- (f) Changes in the law, government regulations and policies may adversely affect the financial performance of the Company. Industry profitability generally, can be affected by changes in government policy that are beyond the control of the Company.

### ***General Economic Conditions***

- (g) Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors that may contribute to that economic climate include the general level of economic activity, interest rates, currency exchange rate and inflation. The price of commodities and level of activity within the lead recycling industry will also be of particular relevance to the Company.

### ***Unforeseen Expenses***

- (h) While the Company is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.

### ***Commodity Price Risk***

- (i) The Company's prospects and share price will be influenced by the price paid from time to time for used lead acid batteries and obtained for lead recycling by the Company. Commodity prices fluctuate and are affected by factors including the relationship between global supply and demand for metals, forward selling by producers, the cost of production and general global economic conditions.

Commodity prices are also affected by the domestic and international outlook for inflation, interest rates, currency exchange rates and supply and demand issues. These factors may have an adverse affect on the Company's development and production activities.

### ***Environmental Risks***

- (j) The Company's operations and projects are subject to State and Federal laws and regulations regarding environmental hazards. The Company intends to conduct its activities in an environmentally responsible manner, in accordance with applicable laws and regulations.

### ***Share Market Risk***

- (k) The market price of shares can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian securities market.

There are a number of factors (both national and international) that may affect the share market price and neither the Company nor its Directors have control of those factors.

## **4.2 General risks**

- (a) The price and value of the New Options and Shares issued on exercise of the New Options will fluctuate. Many factors affect the price and value of shares including local and international stock markets, movements in interest rates, economic and political conditions and investor and consumer sentiment. In recent times there has been a high level of volatility on world stock markets and no predictions can be made as to when that period of volatility will end.
- (b) Changes to legal requirements, including taxation laws, may result in the imposition of additional taxes, imposts and other charges by government from time to time. The Company's profitability can be affected by changes in laws and policies and the interpretation and application thereof.
- (c) A broad range of other macro economic and political risk factors exist which are beyond the control of the Company and will affect the Company's operations, including exchange rates, interest rates and government policies.

Therefore, the New Options to be issued pursuant to this Offer Document carry no guarantee with respect to the future market value of those New Options. No assurance as to future profitability of the Company, or dividends for Shares issued on exercise of a New Option, can be given as they are dependent on future earnings, the cost of future research and the working capital requirements of the Company.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for the New Options.

## **5. ADDITIONAL INFORMATION**

### **5.1 Underwriting Agreement**

The Company and Martin Place Securities Pty Limited ('MPS') have entered into an Underwriting Agreement dated 19 May 2010 whereby MPS has agreed to underwrite all the New Options to be issued under the Offer.

The Underwriter is entitled to appoint sub-underwriters at any time in its absolute discretion.

### ***Representations, Warranties and Indemnities***

The Underwriting Agreement contains various warranties, representations and undertakings that are customary for agreements of this type, and imposes various obligations on the Company, including to ensure that the Offer Document complies with the disclosure requirements of the Corporations Act 2001.

The Company has indemnified the Underwriter against all claims, losses, damages, costs and liabilities which they suffer or incur arising out of or in connection with the Offer Document or the issue of the Offer Document to the extent that such claims, losses, damages, costs and liabilities are not caused by the Underwriter.

### ***Fees and Costs***

The Company must pay to the Underwriter:

- (a) an underwriting fee of 5% plus GST of the total funds to be raised by the Offer; and
- (b) a management fee of 1% of the total funds to be raised by the Offer.

The Company will pay the costs and expenses of the Underwriter in relation to the Offer, including all legal costs that the Underwriter reasonably incurs in respect of the Offer (up to a maximum of \$15,000).

### ***Termination***

The Underwriting Agreement provides that MPS may terminate the Underwriting Agreement and its obligations under the Underwriting Agreement in various circumstances which are set out in the Underwriting Agreement, a copy of which is available for inspection upon application to the Company or to MPS.

## **5.2 Marketing Assistance Agreement**

The Company and MPS have entered into a Marketing Assistance Agreement dated 19 May 2010 whereby MPS has agreed to provide the Company with investor and public relation services and assistance in the marketing of the Company's securities until 30 September 2010 in order to encourage the early exercise of the New Options by 30 September 2010.

### ***Fees and Costs***

The Company must pay to MPS a fee equal to 6% (plus GST) of the exercise price of those New Options exercised by 30 September 2010 to a maximum of 25% of the number of the New Options to be issued under this Offer Document for the provision of the investor and public relation services and marketing assistance.

### 5.3 Terms of the New Options

The terms of the New Options are as detailed below.

- (a) **(Entitlement)** Each New Option entitles the optionholder to subscribe for one fully paid ordinary share in the capital of the Company.
- (b) **(Issue price)** The issue price of each New Option is \$0.01.
- (c) **(Exercise price)** The exercise price of each New Option is \$0.04.
- (d) **(Option period)** Each New Option may be exercised in whole or in part at any time before 30 June 2012. A New Option not exercised automatically expires on 30 June 2012.
- (e) **(Certificates)** The Company must give each optionholder a holding statement stating:
  - (i) the number of New Options issued to the optionholder;
  - (ii) the exercise price of the New Options; and
  - (iii) the date of issue of the New Options.
- (f) **(Participation rights)** An optionholder is not entitled to participate in any new issue to existing Shareholders of securities in the Company unless they have exercised their New Options before the record date for determining entitlements to the new issue of securities and participate as a result of holding Shares.
- (g) **(Notice of new issues)** The Company must give an optionholder, in accordance with the ASX Listing Rules, notice of:
  - (i) the proposed terms of the issue or offer proposed under clause (f); and
  - (ii) the right to exercise their New Options under clause (f).
- (h) **(Bonus issues)** If the Company makes a bonus issue of Shares or other securities to Shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the New Option before the record date for determining entitlements to the issue, then the number of underlying Shares over which the New Options is exercisable is increased by the number of Shares which the optionholder would have received if the optionholder had exercised the New Option before the record date for determining entitlements to the issue.
- (i) **(Pro rata issues)** If the Company makes a pro rata issue of Shares (except a bonus issue) to existing Shareholders (except an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the New Option before the record date for determining entitlements to the issue, the exercise price of each New Option is reduced in accordance with the ASX Listing Rules.

- (j) **(Reorganisation)** If there is a reorganisation (including consolidation, sub-division, reduction or return) of the share capital of the Company, then the rights of the optionholder are changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (k) **(Calculation and adjustments)** Any calculations or adjustments which are required to be made under the terms of issue will be made by the board of Directors of the Company and will, in the absence of manifest error, be final and conclusive and binding on the Company and the optionholder.
- (l) **(Notice of change)** The Company must within a reasonable period give to each optionholder notice of any change pursuant to the terms of issue to the exercise price of any New Options held by an optionholder or the number of Shares which the optionholder is entitled to subscribe for on exercise of a New Option.
- (m) **(Method of exercise and payment)** To exercise New Options, the optionholder must give the Company or its share registry, at the same time:
  - (i) a written exercise notice (in the form approved by the board of the Company from time to time) specifying the number of New Options being exercised and shares to be issued;
  - (ii) payment of the exercise price for the Shares the subject of the exercise notice by way of bank cheque or by other means of payment approved by the Company; and
  - (iii) the certificate, if any, for the New Options.
- (n) **(Exercise all or some options)** An optionholder may only exercise New Options in multiples of 10,000 unless the optionholder exercises all New Options held by the optionholder. New Options will be deemed to have been exercised on the date the application is lodged with the Directors.
- (o) **(Option certificates)** If an optionholder exercises less than the total number of New Options registered in the optionholder's name:
  - (i) the optionholder must surrender their option certificate (if any); and
  - (ii) the Company must cancel the option certificate (if any) and issue the optionholder a new option certificate or holding statement stating the remaining number of New Options held by the optionholder.
- (p) **(Issue of Shares on exercise)** Within 10 business days after receiving an application for exercise of New Options and payment by an optionholder of the exercise price, the Company must issue the optionholder the number of Shares in the capital of the Company specified in the application.
- (q) **(Ranking of Shares on issue)** Subject to the Company's constitution, all Shares issued on the exercise of New Options rank in all respects (including rights relating to dividends) pari passu with the existing Shares of the Company at the date of issue.

- (r) (**Piggy Back Option**) Upon issue of a Share on exercise of a New Option (provided that the notice of exercise is validly exercised and received by the Company on or prior to 30 September 2010, the Company will issue one further option to the optionholder ("**Piggy Back Option**") for each New Option so exercised and the Piggy Back Option will be on the same terms and conditions as New Options except that:
- (i) the issue price under condition (b) is zero;
  - (ii) the exercise price under condition (c) is \$0.08;
  - (iii) the exercise period under condition (d) will be until 30 September 2012;
  - (iv) this condition (r) will not apply.
- (s) (**Quotation**) The Company will apply to ASX for official quotation of:
- (i) the New Options; and
  - (ii) the Shares issued on exercise of the New Options.

#### 5.4 Rights attaching to Shares

Each Share issued on exercise of the New Options will be issued as a fully paid ordinary share. The Shares will, from the date of their allotment, rank equally with all Shares of the Company then on issue.

The rights and liabilities attaching to Shares are:

- (a) set out in the Constitution, a copy of which is available for inspection at the Company's Registered Office at Lot 3, Five Islands Road, Unanderra NSW 2526; and
- (b) in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.

The following is a broad summary of the principal rights of the Shares. The summary is not exhaustive with the full rights being set out in the Constitution:

- (a) (**Voting**) Every holder of Shares present in person or by proxy, attorney or representative at a meeting of Shareholders has one vote on a vote taken by a show of hands. On a poll every holder of Shares who is present in person or by proxy, attorney or representative has one vote for every fully paid Share registered in the Shareholder's name in the Company's share register and for each partly paid Share, a fraction of a vote equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable, (excluding amounts credited) on the Share except that a Shareholder is not entitled to vote at a general meeting if any calls or other sum presently payable by that Shareholder in respect of shares are outstanding or the Shareholder is in breach of the Listing Rules relating to restricted securities or in breach of a restriction agreement by that Shareholder. A poll may be demanded by the chairperson of the meeting, by 3 or more

Shareholders present in person or by proxy or by representative entitled to vote on the resolution or by Shareholders with at least 5% of the votes that may be cast on the resolution on a poll or by a Shareholder or Shareholders present in person or by proxy or representative holding voting shares on which an aggregate sum has been paid up equal to not less than 5% of the total sum paid up on all voting shares issued by the Company.

- (b) **(Dividends)** Dividends (if any) are payable out of the Company's profits and are declared or determined to be payable by the Directors. Dividends declared (whether interim or final) will be payable on the Shares at a fixed amount per Share.
- (c) **(Transfer of Shares)** Shareholder may transfer Shares by a market transfer in accordance with any computerised or electronic system established or recognised by ASX or the Corporations Act 2001 for the purpose of facilitating transfers of shares, by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors. The Directors may refuse to register any transfer of Shares, other than a Proper ASTC Transfer where permitted by the ASX Listing Rules. The Company must not refuse or fail to register or give effect to or delay or in any way interfere with a Proper ASTC Transfer of Shares or other securities.
- (d) **(Meetings and notice)** Each Shareholder is entitled to receive notice of and to attend the Company's general meetings and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act 2001 or the ASX Listing Rules.
- (e) **(Liquidation rights)** The Company has only one class of shares on issue, which all rank equally in the event of liquidation. Once all of the Company's liabilities are satisfied, a liquidator may, with the authority of a special resolution of Shareholders, divide among the Shareholders at the time the whole or any part of the remaining assets of the Company. The liquidator may with the sanction of a special resolution of the Company vest the whole or any part of the assets in trust for the benefit of Shareholders as the liquidator thinks fit, but no Shareholder of the Company can be compelled to accept any Shares or other securities in respect of which there is any liability.
- (f) **(Shareholder liability)** As the Shares issued on exercise of the new Options offered under the Offer Document are fully paid shares, they are not subject to any calls for money by the Directors and will, therefore, not become liable for forfeiture.
- (g) **(Alteration of Constitution)** The Constitution can only be amended by a special resolution passed by at least three quarters of the Shareholders who are present and voting at a general meeting. At least 28 days' written notice of the special resolution must be given.
- (h) **(Creation and issue of additional Shares)** The allotment and issue of any additional Shares is under the control of the Directors and, subject to any restrictions on the allotment of Shares imposed by the Corporations Act 2001, the

Directors may allot or otherwise dispose of those additional Shares on such terms and conditions as they see fit.

- (i) **(Variations of Rights)** The rights attaching to any class of Shares may be altered either with the approval of a special resolution passed by the Shareholders in that class at a general meeting or with the written consent of Shareholders holding 75% of the issued Shares in that class.
- (j) **(Ranking with existing Shares)** The Shares issued on exercise of the New Options issued under to this Offer Document shall rank equally in all respects with the existing issued Shares.

## 5.5 CHESS

The Company participates in the CHESS system of securities transfer. CHESS (the Clearing House Electronic Sub-register System) is operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of the ASX.

Being admitted to CHESS, the Company will not issue certificates to persons who are allotted New Options issued under this Offer Document. Instead, each holder of New Options will be provided with a 'Holding Statement' which sets out the number of New Options to be issued to them under this Offer Document.

The Holding Statement will provide details of an optionholder's 'Holder Identification Number' (HIN) (in the case of a holding on the CHESS sub-register), or 'Security holder Reference Number' (SRN) (in the case of a holding on the issuer sponsored sub-register).

Following distribution of the initial Holding Statements to all optionholders, a Holding Statement will only routinely be provided to an optionholder at the end of any subsequent month during which the balance of the optionholder's holding of New Options changes.

It is the responsibility of optionholders to determine their holding before trading in New Options. Applicants who sell New Options before receiving their Holding Statements do so at their own risk.

## 5.6 Taxation

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment which applies to them by consulting their own professional tax advisers. Taxation consequences will depend on the particular circumstances of each shareholder. Neither the Company nor any of its officers accept any liability or responsibility in respect of the taxation consequences connected with dealings in the New Options.

## 5.7 Directors' interests and related parties

Mr Timothy Allen is a consultant to Martin Place Securities Pty Limited ("MPS"). Mr. Allen may receive a benefit from MPS on this offering.

Other than as detailed in this Offer Document, no Director, proposed Director, Underwriter or promoter of the Company:

- (a) has any interest in the formation or promotion of the Company, or had such an interest in the last two years;
- (b) has any interest in any property proposed to be acquired by the Company in connection with its formation or promotion or the Offer, or had such an interest in the last two years;
- (c) has any interest in the Offer; and
- (d) is, or during the last 2 years was, a partner of (or has, or during the last 2 years, had any beneficial interest in) a firm which has, or during the last 2 years had, any interest in the promotion of, or any property proposed to be acquired by, the Company in connection with its promotion.

Further, no benefit has been given or agreed to be given to a Director or proposed Director, in cash or shares or otherwise, either to induce him / her to become, or to qualify him / her as, a Director or otherwise for services rendered by him / her in connection with the formation or promotion of the Company or the Offer.

Details of the interests of the Directors in the securities of the Company immediately before lodgement of this Offer Document with ASIC, including those held directly and indirectly, are as follows:

	<b>Fully Paid Shares</b>	<b>30 June 2010 Listed Options</b>	<b>30 June 2010 Unlisted Options</b>
Mr Timothy R Allen	725,000	25,000	2,000,000
Dr Lakshman D Jayaweera	28,549,498	50,000	2,000,000
Mr Stephen H Kwan	46,000	-	2,000,000
Mr Pipvide S Tang	3,334,000	50,000	2,000,000
Mr Gregory W Wrightson	1,263,300	30,000	2,000,000
Mr Yang Chung Ming	49,924,000	-	-

Each Director who is a Shareholder will be entitled to participate in the Offer.

## **5.8 Expenses**

The total estimated expenses of the Offer (including the underwriting fee, legal fees and other consulting fees, registration fees and other expenses) will be approximately \$350,000 plus GST which is payable by the Company.

## 6. AUTHORISATIONS AND CONSENTS

### 6.1 Consents

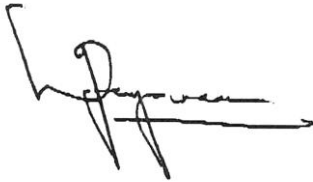
**Registries Limited** has given, and has not withdrawn before lodgement of this Offer Document with ASIC, its consent to being named in this document in the form and context in which it is named.

**Martin Place Securities Pty Limited** has given, and has not withdrawn before lodgement of this Offer Document with ASIC, its consent to being named in this document in the form and context in which it is named.

### 6.2 Directors' authorisations

This Offer Document is issued by Hydromet Corporation Limited ACN 002 802 646. Each Director consents to the lodgement of this Offer Document with ASIC.

Signed by Dr. Lakshman D Jayaweera in accordance with a resolution of the Directors:

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

Dr. Lakshman D Jayaweera  
Chairman

24 May 2010

## 7. GLOSSARY

'ASIC' means the Australian Securities and Investments Commission.

'ASX' means ASX Limited.

'ASX Listing Rules' means the listing rules of ASX from time to time.

'Closing Date' means the last date that completed Entitlement and Acceptance Forms, together with application monies, will be accepted by the Company, being 7 July 2010.

'Company' or 'Hydromet' means Hydromet Corporation Limited ACN 002 802 646.

'Constitution' means the constitution of the Company.

'Corporations Act' means the *Corporations Act 2001(Cth)*.

'Director' means a director of the Company.

'Eligible Shareholder' has the meaning given to it in **Section 1.1**.

'Entitlement' means an Eligible Shareholder's entitlement to participate in the Offer as detailed in that Eligible Shareholder's Entitlement and Acceptance Form.

'Entitlement and Acceptance Form' means the form so entitled accompanying this Offer Document.

'Excluded Shareholders' has the meaning given to it in **Section 1.4**.

'Marketing Assistance Agreement' means the Agreement detailed at **Section 1.8**.

'New Option' means an option issued by the Company pursuant to this Offer Document with the rights as set out in this Offer document.

'Offer' means the offer of New Options pursuant to this Offer Document.

'Offer Document' means this document dated 24 May 2010.

'Proper ASTC Transfer' has the same meaning as in the *Corporations Regulations 2001 (Cth)*.

'Record Date' means 5:00 pm (Sydney time) on 4 June 2010.

'Share' means a fully paid ordinary share in the Company.

'Shareholders' means the holders of Shares.

'Shortfall Facility' has the meaning given to it in **Section 1.5**.

**'Underwriting Agreement'** means the agreement detailed at **Section 1.7**.

**'Underwriter'** means Martin Place Securities Pty Limited ACN 094 927 947.

**'Voting power'** has the meaning given to it in the Corporations Act.

**'\$'** means Australian dollars unless otherwise indicated.



**RIGHTS ISSUE ENTITLEMENT AND ACCEPTANCE FORM**

NON-RENOUNCEABLE ISSUE OF UP TO 454,512,280 NEW OPTIONS AT AN ISSUE PRICE OF 1 CENT EACH ON THE BASIS OF 1 NEW OPTION FOR EVERY 1 ORDINARY SHARE HELD, PAYABLE IN FULL UPON ACCEPTANCE OF THIS OFFER. EACH OPTION WILL BE EXERCISEABLE BY THE PAYMENT OF 4 CENTS ANYTIME UP UNTIL EXPIRY OF 30 JUNE 2012. REFER TO THE OFFER DOCUMENT FOR THE FULL TERMS AND CONDITIONS OF THE OPTIONS

Entitlement No.

Subregister

SRN/HIN.

Number of Shares held at 5pm on 4 June 2010

**Offer Closes: 7 July 2010 at 5:00pm AEST**

<Barcode>

**A Rights Acceptance**

If you wish to accept your **FULL ENTITLEMENT** please complete and return this form **WITH YOUR PAYMENT FOR THE AMOUNT SHOWN BELOW**. The return of this form by the close date with payment will constitute acceptance of the Offer. Your signature is only required when an alteration to your address is indicated by you over the page.

Entitlement to New Options on the basis of one New Option for one Ordinary Share held	Price Per Option	Amount Payable for Full Acceptance, at \$0.01 per New Option
	\$0.01 per Option =	

If you wish to accept **PART OF YOUR ENTITLEMENT ONLY** please complete this form showing in the box below the **NUMBER OF NEW OPTIONS BEING ACCEPTED** and the appropriate amount payable.

Number of New Options accepted	Price Per Option	Amount Enclosed
	\$0.01 per Option =	\$

**B Apply for Additional New Options (if available)**

If you wish to apply for additional New Options to your Rights Entitlement above please insert the number of Additional New Options in the box below and the appropriate amount payable. These additional New Options will only be allotted if available.

Number of Additional New Options Applied for	Price Per Option	Amount Enclosed
	\$0.01 per Option =	\$

**C Payment & Contact Details**

If the person completing this form is acting for the shareholder, the return of this form together with payment will constitute acceptance of the Offer by the shareholder, and if that person is acting under Power of Attorney, he/she states he/she has not received notice of revocation and that he/she has authority to accept the Offer.

**CHEQUE DETAILS**

DRAWER	BANK	BRANCH (BSB NO.)	AMOUNT OF CHEQUE/S
			\$
			\$

**YOUR CONTACT DETAILS**

CONTACT NAME	TELEPHONE WORK	TELEPHONE HOME	EMAIL ADDRESS
	( )	( )	

Cheques should be made payable to "Hydromet Corporation Limited"

By submitting this Application form, I/We represent and warrant that I/we have read and understood the Offer Document to which this Application Form relates and declare that this Application is completed and lodged according to the Offer Document and the instructions on the reverse of the Application form and declare that all details and statements made by me/us are complete and accurate. I/We agree to be bound by the constitution of Hydromet Corporation Limited and agree to the terms and conditions of the Offer under this Offer Document. I/We represent and warrant that I/we have not relied on any other information provided by the Company other as set out in this Offer Document when making my/our decision to invest.

**LODGEMENT INSTRUCTIONS ARE ON THE REVERSE OF THIS FORM**

# LODGEMENT INSTRUCTIONS TO APPLICANTS

Please read these instructions carefully

## ACCEPTANCE OF YOUR ENTITLEMENT IN FULL OR PART

Multiply the number of New Options for which you are accepting by \$0.01 then fill in the acceptance details, where necessary, in the space provided on the front of this form. Complete your cheque details on the front of this form and send your cheque/draft and completed form to:

**Postal Address**

Registries Limited  
GPO Box 3993  
SYDNEY NSW 2001

Telephone No. 02 9290 9600

Facsimile No. 02 9279 0664

**Delivery Address**

Registries Limited  
Level 7, 207 Kent Street

**If you do not deal with your entitlement it will lapse.**

## PAYMENT

All cheques/drafts (expressed in Australian currency) are to be made payable to "Hydromet Corporation Limited" and crossed "Not Negotiable".

## PAYMENT - OVERSEAS RESIDENTS

Overseas shareholders who are permitted to apply for New Options must obtain a draft in Australian currency payable on a bank in Australia, or where the shareholder has an account with a bank in Australia, by a cheque drawn on that bank within Australia.

The Australian currency draft should be attached to your completed form and the document mailed to:

Registries Limited  
GPO Box 3993  
SYDNEY NSW 2001

OVERSEAS SHAREHOLDERS ARE ADVISED TO ENSURE THEIR DOCUMENTS ARE POSTED TO AUSTRALIA BY AIRMAIL.

Personal cheques drawn on overseas banks in Australian or any foreign currency will not be accepted. These will be returned and the acceptance deemed to be invalid.

## INTERPRETATION

Terms used in this Entitlement and Acceptance Form have the same meaning as defined in the Offer Document.

## CHANGES OF ADDRESS SUPPORTED BY YOUR SIGNATURE(S)

If your address is not exactly as shown, please provide details below. This is only relevant for Issuer Sponsored registered holdings. CHESS holders must notify your sponsoring broker for amendments to holdings on the CHESS Subregister.

CHANGE OF ADDRESS DETAILS – ISSUER SPONSORED ONLY		
SIGN HERE FOR ADDRESS AMENDMENTS:		

Shareholder 1 (Individual) /  
Sole Director & Sole Company Secretary

Joint Shareholder 2 (Individual) /  
Director

Joint Shareholder 3 (Individual) /  
Director/Company Secretary  
*(Delete one)*

**Privacy Statement:**

Registries Limited advises that Chapter 2C of the Corporations Act 2001 (Cth) requires information about you as a shareholder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your share holding and if some or all of the information is not collected then it might not be possible to administer your share holding. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on the Application Form.

Our privacy policy is available on our website ([http://www.registriesltd.com.au/help/share\\_privacy.html](http://www.registriesltd.com.au/help/share_privacy.html)).