Annual Financial Report

Hydromet Corporation Limited
and its controlled entities

ABN 71 002 802 646

30 June 2002

Offices and officers

Principal registered office
Lot 3 Five Islands Road
Unanderra NSW 2526

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Company Secretary
Mr Neil W Smith

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

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Hydromet Operations Limited
Tasmania operation
Risdon Road
New Town TAS 7008

Telephone: 03 6278 9287
Facsimile: 03 6278 9320

MinMet Operations Pty Limited
25 School Drive
Tomago NSW 2322

Telephone: 02 4964 8266
Facsimile: 02 4966 5958

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

Telephone: 02 8234 5000
Facsimile: 02 8216 5500
Investor enquiries: 02 8216 5700

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

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

Auditor
KPMG
PO Box 866
Wollongong NSW 2500

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for the year ended 30 June 2002

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Chairman's report

On behalf of the Directors of Hydromet Corporation Limited, I am pleased to report that your Company made very significant progress for the year ended 30 June 2002, achieving a consolidated net profit of $1.4 million. This important result has been achieved from total group operating revenue of $11.6 million. As a result, the Board declared a final fully franked dividend of 0.15 cents per ordinary share on 9 September 2002. This final dividend amounting to $403,450, is equivalent to 28% of the consolidated profit realised for the year.

The above profit was made possible by excellent operating performance, principally from two major projects, namely the lead immobilisation contract with Rio Tinto and Selenium – Precious Metal extraction project for Falconbridge, Norway.

Rio Tinto's lead immobilisation project, involving the chemical immobilisation of 16,000 metric tonne ("Mt") of lead residue and was successfully completed at our Unanderra facility by the end of June 2002, six months ahead of forecast. The Falconbridge project, which was commercialised at the beginning of the financial year also, performed successfully and with the existing backlog of residue, forecast to continue at our Newcastle plant until late 2003. Annual arisings from the Norwegian plant are expected to be processed at the plant on an ongoing basis.

A comprehensive review of the consolidated entity's operations during the financial year is contained in the Directors' report.

With the successful completion of the Rio Tinto project, Hydromet has turned attention to installation of the OneSteel Zinc Sulphate project. We secured a long term sustainable contract with OneSteel in January 2002 and will commence processing the Electric Arc Furnace dust at our Unanderra site from October 2002. The contract is for an initial period of five years with a five years option. Hydromet will process and extract zinc from the dust as zinc sulphate via our HydroProc process and immobilise the remaining leach residue using our well proven HydroProc immobilisation technology. Commissioning of the dust leach circuit will commence mid August and scaled up Zinc Sulphate will begin in November.

Management has foreshadowed a temporary revenue slowdown at the Unanderra site for the six months ending 31 December 2002 due to the gap created as a result of early completion of Rio Tinto's project ahead of forecast and commissioning of the OneSteel Project.

Management has been successful in bringing additional immobilisation projects to the Company to assist in offsetting the revenue slowdown. The following projects are expected to be conducted during the six months to December 2002 in parallel with the commercialisation of the OneSteel project and continuation of the Falconbridge project. These projects include:

- commencement of treatment of 4,000 Mt of lead contaminated slag from a major battery recycling operation, immobilising the slag prior disposal to landfill;
- immobilisation and landfill disposal of 1,000 Mt trial parcel of heavy metal bearing sludge. If the trial 1,000 Mt is successful, and subject to the EPA approval, this project could become a longer-term contract for Hydromet; and
- immobilisation and landfill disposal of 1,500 Mt of lead contaminated soil from a waste facility.

Outlook for the future

Today Hydromet has a unique competitive advantage to capitalise on and build its business in the growing waste recycling and management field. Our unique ability to recycle hazardous waste and or immobilise where recycling is not warranted is well recognised by both the regulators and the generators of waste in Australia.

Furthermore, Hydromet has the following advantages:

- our technology both for recycling and immobilising hazardous waste is at a mature stage; and
- we have established a strong reputation both with the generators and the regulatory authorities. Our clients are typically blue chip industrial companies;
- Hydromet's freehold licensed facilities which are capable of receiving and processing large quantities of hazardous waste are our major assets; and
- over the year, our company has also continued to establish a team of experts who are able to process a wide range of complex wastes either by recycling to produce value added products or by immobilising where recycling is uneconomical.

At 30 June 2002, the consolidated entity held a cash reserve of $6.8 million with no borrowed funds, other than motor vehicle finance leases and insurance funding.

Future challenge and strategy

Having achieved a successful year with valuable contracts, the Company's next challenge is to sustain this momentum and to grow further to deliver improving returns to our dedicated shareholders.

Over the next twelve months we intend to explore the following areas to secure the growth of the Company:

- capitalise on the HydroProc immobilisation technology to secure both short and long term contracts to further our objective to become the leader in the immobilisation and waste management field;
- establish longer-term sustainable waste recycling projects with major clients using existing or new facilities;
- potential acquisition in the synergistic environmental waste management field such as landfill, metal recycling, or related waste field;
- potential acquisition in the synergistic smelting or metallurgical facility to further extend Hydromet's capabilities; and
- re-establish our cobalt chemical business either by treating waste residues or by bringing clean feed concentrate from Stanton Project. In regard to the Stanton Project, we intend to bring a joint venture partner to develop the mine and deliver the concentrate to Hydromet. This year, we have neither explored nor spent funds on the Stanton project with the exception of an application to upgrade the site to a mining lease. We have been cautious in our approach given the significant fall in the price of cobalt. We prefer to wait until the price improves and market demand returns to previous levels.

Some specific projects, which are currently under serious investigation, are as follows:

- recycling of waste sulphuric acid from a major oil company. A proposal is under discussion to treat 7,000 Mt/year;
- recycling of used car batteries. A conceptual submission has been made to both local EPA and Council for comment. The planned stripping and recycling plant will provide an environmentally friendly solution to recovery of the lead content. The lead will be sold as feed to a smelter. Hydromet is also considering developing its own smelting operation to produce value added lead product. If we obtain approval to proceed Hydromet will be in a position to process up to 12,000 Mt of lead acid batteries per year;
- having signed a confidentiality agreement Hydromet has commenced the vital due diligence programme with a view to acquire the smelter through a joint venture consortium. If a viable long term operation can be established through the due diligence process Hydromet would seek to develop the smelting operation to include a residue smelting operation through under Hydromet's management;
- long term processing contract with Falconbridge Norway; and
- potential selenium contract on sustainable basis with a major copper smelter in USA.

Conclusion

The company's business expansion strategy will continue to bring both short and long term projects to sustain revenue and grow further. The strategy outlined above will be achieved by securing further contracts for established processes, develop new projects with clients and by acquisition. I am optimistic that Hydromet will achieve these objectives through the current financial status, widely established credibility and finally with the support of management, staff and shareholders.

The financial year would have not been successful if not for our dedicated management and staff. On behalf of the Board of Directors I would like to thank all personnel for their continued efforts in bringing the company its successful result in 2002. I would also like to extend my gratitude to our loyal shareholders for their ongoing patience and support. We look forward to more challenging years ahead.

Dr Lakshman Jayaweera
Chairman

Dated this 30th day of September 2002.

Corporate governance statement

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated. These practices are dealt with under the following headings: Board of Directors and the Audit and Remuneration Committee, Conflict of interest, Business risk management, Internal control framework, Ethical standards and the Role of shareholders.

Board of Directors and the Audit and Remuneration Committee

The Board is responsible for the overall corporate governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The Board seeks to discharge these responsibilities in a number of ways.

The Board holds scheduled meetings each year, in addition to extraordinary and other meetings at such times as necessary to address specific matters that may arise.

The Chairman and Managing Director prepare meeting agendas. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Papers are circulated in advance. The directors have access to all executives and regularly visit operations facilitating contact with a wider group of employees.

The Board has established an Audit and Remuneration Committee, which operates under a charter approved by the Board. The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the Managing Director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has procedures in place to assess the performance of the Managing Director and the executive team. The Audit and Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director and directors.

The names of the directors of the Company in office at the date of this statement are set out in the Directors' report.

Each director has the right, with prior approval of the Audit and Remuneration Committee, to seek independent professional advice at the expense of the Company.

Directors appointed to the Board are subject to election by shareholders at the following annual general meeting and thereafter (other than the Managing Director) are subject to re election at least every three years. The tenure for executive directors is linked to their holding of executive office.

The current base remuneration for non-executive directors is $25,000 per annum. No additional payment is made to members of the Audit and Remuneration Committee.

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

At the date of this statement, the Board comprises two independent non-executive directors, one non-executive director and two executive directors, one of which is the Chairman. Independent directors do not play a role in the day to day management of the Group.

The members of the Audit and Remuneration Committee during the year were Messrs BW O'Neill (independent non-executive director – retired October 2001), SH Kwan and PS Tang (both non-executive directors). The role of the Audit and Remuneration Committee includes:

- nomination of new directors;
- to determine and review the remuneration of directors and executive officers of the Company;
- to establish and maintain a framework of internal control and appropriate ethical standards for management;
- to give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report;
- monitor corporate risk assessment processes;
- liaising with the external auditors and ensuring that the annual and half-year statutory audits are conducted in an effective manner;
- review the proforma half yearly and pro forma preliminary final report with the external auditors prior to lodgement of the documents with the ASX and any significant adjustments required as a result of the audit; and
- review the performance of the external auditors on an annual basis and to meet with them prior to announcement of results.

Conflict of interest

In accordance with the Corporations Act 2001 and the company's constitution directors must keep the Board informed on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board considers that a significant conflict exists the director does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated entity are set out in Note 31.

Business risk management

The Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. Once a risk is identified, the Board will instigate an action plan. Corrective action will be taken as soon as practicable. Major business risks arise from action by customers, competitors, government policy changes, the impact of exchange rate and product price movements, difficulties in sourcing feed materials, and problems in the development of technical processes.

Internal control framework

The Board acknowledges that it 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.

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.

Ethical standards

It states in the Quality Policy Statement that our business ethics will be conducted to the highest standards embracing fairness, honesty, integrity, loyalty and trust. All directors, officers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Role of shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all major information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders;
- the half-yearly report announced to the Australian Stock Exchange;
- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate; and
- newsletters distributed to all shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals.

The shareholders are responsible for voting on the appointment of directors.

Directors' report

The directors present their report together with the financial report of Hydromet Corporation Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2002 and the auditor's report thereon.

Directors

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

Name and qualifications	Experience and special responsibilities
Dr Lakshman D Jayaweera MSc, PhD Chairman 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 Chairman from September 2000 to January 2001 and appointed Chairman in January 2001.
Mr Gregory W Wrightson Executive Director and Managing Director	Mr Wrightson has over 18 years experience in chemical manufacturing and was appointed General Manager of the Company in 1997. Director since 1998 - appointed Managing Director in September 2000.
Mr Stephen H Kwan, MPhil, ATI, MBIM 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 Independent Non-Executive Director	Mr Tang has more than 25 years experience in accounting, financial management and corporate finance. Member of the Audit and Remuneration Committee. Chair of the Audit and Remuneration Committee from October 2001. Director from 1991 to 1996 and since 1997. Mr Tang was an Executive Director until August 2000.
Mr Barry W O'Neill, D.App.Chem, A.SwTC, FAICD Independent Non-Executive Director	Mr O'Neill has extensive experience in chemical manufacturing. Chair of the Audit and Remuneration Committee to October 2001. Director since 1998 – Chairman from 1999 to January 2001. Retired in October 2001.
Mr Timothy R Allen Independent Non-Executive Director	Mr Allen has extensive engineering and banking experience with qualifications in mining, engineering, economics and he is a member of the Securities Institute of Australia. Appointed in October 2001.

Directors' meetings

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

	Board meetings		Audit and remuneration committee meetings	
Directors	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr BW O'Neill	2	1	1	1
Mr SH Kwan	9	3	3	2
Mr GW Wrightson	9	9	-	-
Dr LD Jayaweera	9	8	-	-
Mr PS Tang	9	8	3	3
Mr TR Allen	7	7	-	-

Principal activities

The principal activities of the consolidated entity during the course of the financial year were:

- the processing of industrial residues and the manufacture of value added products therefrom;
- the manufacture of chemicals and resource recovery;
- the provision of consulting services; and
- the development of environmental, remediation and mineral processing technologies.

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

Review and results of operations

Consolidated results

The consolidated profit from ordinary activities for the year attributable to the members of the Company was $1,427,552 (2001: loss $1,658,547).

The consolidated entity concentrated on two major residue contracts during the period namely:

- the Rio Tinto lead residue immobilisation process at our Unanderra NSW facility; and
- the Falconbridge precious metals/selenium upgrade project at our Newcastle plant.

The success of the above projects has attracted overseas interest with a possible lead slag immobilisation contract pending in New Zealand and possible Selenium recycling project from the United States.

In January 2002, the Company signed a five year treatment contract with OneSteel Rooty Hill NSW steel mini mill to process up to 7,000 tpa of electric arc furnace dust (EAF dust). The EAF dust will be processed at the Company's Unanderra plant to extract the zinc content for on processing to zinc sulphate and residual leach residue will be chemically immobilised to enable environmentally acceptable disposal to landfill. Zinc sulphate produced from the EAF dust will be sold into the domestic agricultural market for application in zinc deficient soil and as an animal feed supplement. The project represents a major achievement for the Company where technology developed under the guidance of the Company's Chairman and Technical Director, Dr Lakshman Jayaweera, will be applied to convert an industrial residue by product to a valuable resource. An added advantage of this recycling project is that the zinc sulphate produced by the Company will replace imported product which in recent times has been revealed to contain unacceptable and often toxic levels of heavy metals. The Company's zinc sulphate is premium quality meeting industry specifications particularly the strict requirements covering its use in animal feed and broad acre spraying applications.

During the year the Company applied for and received NSW EPA approval for additional specific immobilisation processes. This enabled us to treat and dispose of client residues, which would otherwise have not had a disposal solution. We expect this area of our business to expand over the coming years as chemical fixation of non recyclable wastes is the most practical answer to a range of industrial and smelter residues.

The Company completed a very successful share purchase plan and private placement in May 2002. The placements raised $3.7 million of which $2.5 million was allocated to the construction of the EAF dust processing plant at Unanderra. The balance of funds will be applied to new projects currently in development and negotiation phase with clients.

The 2002 – 2003 year is an important period for the Company. With the success of the past year we are concentrating our attention on bringing new long term projects online to underpin our objective to lift revenue streams from both recycling and immobilisation projects. A number of projects were identified during the past year which is expected come online in the December half year.

During the year we experienced the impact of possible competition in waste immobilisation. We expect this to continue with other waste management companies seeking to enter this area. Barriers to entry do however include the necessity for suitable licensed facilities, research and development capabilities and the long lead times associated with testwork, EPA submissions and logistics. The Company has been able to demonstrate unrivalled capabilities in all these important areas of operation and at the same time our technical staff have developed valuable waste handling experience which has led to an increasing profile for the Company.

The Company's business elements and relevant revenue contributions for the year included:

■ treatment fees earned	$10.613 million
■ finished product sales	$0.740 million
■ other sales	$0.258 million
Total revenue earned for the year	$11.611 million

This represents an increase of $5.27 million or 83% over the prior year.

HydroMet Operations (Southern) Limited – Unanderra NSW

- Completed the 16,000 tonne Rio Tinto lead immobilisation project in June 2002. Considered the most successful project to date with the Company completing processing ahead of schedule.
- Improvements to operating facilities were carried out on the site to enable additional processes to be brought online and to provide flexibility to accept small quantities of varying wastes to be treated at the facility.
- Commenced installation of the Onesteel EAF dust processing plant in March 2002. Partial commissioning of the stage 1 dust leach circuit commenced in early August 2002 with full scale receipt and processing to begin on 1 October 2002. The plant is extensive and occupies up to 50% of available warehouse area on the site.
- Conducted research and development work on a number of potential projects with some expected to materialise over the next six months.

MinMet Operations Pty Limited – Tomago NSW

- Minmet completed plant modifications and commenced to process Falconbridge precious metal bearing selenium residue in July 2001. The project where selenium is extracted from the residue upgrading the precious metal content is expected to be ongoing with the current stockpile due for completion in the September quarter of 2003.
- Minmet provides a toll manufacturing to a local chemical blending company.
- Other development work continues at the site with spray drying of zinc sulphate planned for commencement in early 2003.
- Pilot trial processing of a Copper/Tellurium residue on behalf of Falconbridge will be carried out later in 2002. The project was identified after we successfully progressed with the initial Falconbridge project and will again involve importing a quantity of residue for treatment at the Newcastle plant.
- Additional opportunities have been identified which are suited to the Minmet operation and again these are expected to emerge over the coming months.

HydroMet Operations Limited – Hobart TAS

- Filtration of Manganese mud continued at Hobart with the contract renegotiated in August 2001 and extended to 31 July 2002. The contract has been extended to end October 2002 with renewal expected to be finalised before its expiry. On 19 September 2001, Pasminco announced the appointment of a Voluntary Administrator to manage the affairs of the company. Administration continues and at the date of this report we have been advised that operations will be continuing at the Hobart Smelter and we are continuing to provide the filtration service.

- We continue to explore other waste treatment projects for the facility, however, due to Pasminco remaining under administration, contract renewals are drawn out.

- New projects continue to be viewed in accordance with their level of priority to Pasminco. We have a plant trial scheduled for September to treat a parcel of Mercury residue. The trial is to demonstrate our recommended immobilisation solution to this difficult disposal problem. We expect that a successful trial will lead to treatment of an existing stockpile and enable a solution to ongoing arisings from the smelter.

Stanton Project

- The main activity on the Stanton Project during the year was an application made to Northern Territory Government to upgrade the lease from exploration to mining lease status. The application remains in progress at year end.
- We have also continued to investigate joint venture opportunities for the lease and discussions are in progress at the date of this report.
- In September 2001 the price for Cobalt began to decline as demand for use in aircraft components also declined. There are signs of a slow recovery in pricing, however the Company will continue to evaluate partner options and secure the upgraded license for the site.

Dividends

Dividends declared by the Company to members for the financial year ended 30 June 2002 were:

	Cents per share	Total amount $	Date of payment	Tax rate for franking credit
Final – ordinary shares	0.15	403,450	25 October 2002	30%
Dealt with in the financial report as: - a subsequent event (refer note 30).		403,450		

The above dividends declared by the Company on 9 September 2002 were 100% franked.

No dividends were paid or declared by the Company in the previous financial year.

State of affairs

During the financial year the Company allotted a total of 43,957,184 ordinary shares to eligible shareholders under the Company's Share Purchase Plan dated 1 February 2002. In May 2002 the Company also made a placement of 36,000,000 ordinary shares subsequent to the members approval at the extraordinary meeting of members held on 20 May 2002. This meeting also approved and ratified the total allotments for the purposes of ASX Listing Rule 7.1

The total aggregate value of $3.7 million arising from the placement will be used by the Company for:

- the implementation of the OneSteel EAF Dust Project (a contract with OneSteel Limited) to treat and recycle Electric Arc Furnace (EAF) dust);
- upgrading the existing processing facility of the Company at Unanderra to facilitate the processing of the EAF dust at a rate of 20-25 metric tonnes/day. Furthermore, the existing zinc sulphate crystallization system and the spray dryer will be refurbished to produce zinc sulphate solution, heptahydrate and monohydrate at a total production rate of 4,000 metric tonnes/year; and
- conduct plant trials with other potential clients aimed at securing projects similar to OneSteel's EAF Dust Project, Rio Tinto's Lead Immobilisation Project and Falconbridge's Precious Metal Project currently in progress.

During the financial year the consolidated entity acquired plant and equipment totaling $1.425 million. These acquisitions were primarily due to a plant upgrade to facilitate the OneSteel EAF Dust Project.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Environmental regulation

The Company acknowledges the importance of its environmental obligations and employs effective systems and procedures to protect those interests and to minimise risk to its employees, the community and the environment.

All the operating sites of the consolidated entity are subject to licence requirements issued under the Protection of Environment Operations Act 1997.

In the business of processing industrial residues and manufacturing chemical products, the Company's operations include treatment processes, disposal of by-products, discharge of effluent and transportation of materials that are subject to approvals from and the close scrutiny of the Commonwealth and State Environmental Protection Authorities.

The site managers are responsible for monitoring compliance with the requirements of environmental regulations and with specific requirements of site environmental licence conditions. Site managers report environmental performance to the Managing Director on a monthly basis. Performance against licence conditions are reported to the various state regulators on a regular 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.

Events subsequent to balance date

Since 30 June 2002, the directors declared dividends of 0.15 cents per share totalling $403,450, to be paid on 25 October 2002.

The Company extended its manganese mud filtration service agreement with Pasminco Hobart Smelter in August 2002. The extension is to 31 October 2002 to allow negotiations for renewal to be finalised. Administration continues and at the date of this report we have been advised that operations will be continuing at the Hobart Smelter and filtration services continue to be provided to Pasminco.

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.

Likely developments

With the completion of the lead immobilisation project in July 2002, the Company has identified a number of immobilisation opportunities to follow on during the year ahead.

The Company expects the Stanton prospect to be upgraded from a Mine Exploration Lease to a Mine and Retention Lease over the coming months. The Company is in discussion with other parties interested in involvement in the project.

The Company is reviewing possible acquisition opportunities where a merger of a business with close synergy to the Company may add value and assist in our growth strategy, particularly if such an acquisition would lead to improved exposure and profit contribution. A number of candidates have been examined and we will continue to examine possibilities.

Directors' and senior executives' emoluments

The Audit and Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Consideration is specifically made to the current operating situation and environment of the Company.

Details of the nature and amount of each major element of the emoluments of each director of the Company and each officer of the Company and the consolidated entity are:

	Base emolument $	Non-cash benefits $	Super contributions $	Total $
Director				
Mr BW O'Neill	6,667	10,347	533	17,547
Mr SH Kwan	23,333	10,347	1,867	35,547
Mr GW Wrightson	153,334	21,577	11,133	186,044
Dr LD Jayaweera	141,666	20,184	10,267	172,117
Mr PS Tang	23,333	10,347	1,867	35,547
Mr TR Allen	17,957	7,661	770	26,388

Options

During or since the end of the financial year, the Company has not granted options over unissued ordinary shares to its directors or executive officers of the Company as part of their remuneration or pursuant to the Employee Share Option Plan approved by shareholders in the general meeting held on 29 September 2000.

Consideration to Chemmet Pty Ltd, a director related entity, for the acquisition of the Stanton Prospect tenement in the previous financial year included 6,000,000 options expiring on 28 August 2003, with an exercise price of 15.0 cents per option. These options do not entitle the holder to participate in any share issue of the Company.

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

Directors' interests

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

Directors	Hydromet Corporation Limited	
	Options over ordinary shares	Ordinary shares
Mr TR Allen	-	2,300,000
Dr LD Jayaweera	6,000,000	15,308,250
Mr SH Kwan	-	46,000
Mr PS Tang	-	80,000
Mr GW Wrightson	-	560,000

Indemnification and insurance of officers

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 a retired director, current directors and officers, including executive officers of the Company and directors, executive officers and secretaries of its controlled entities. The insurance premiums relate to:

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

The directors have not included details of 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.

Other than the matter discussed above, the Company has not, during or since the financial year, in respect of any person who is or has been an officer of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

Date at Wollongong this 30th day of September 2002.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

Hydromet Corporation Limited and its controlled entities

Statements of financial performance
for the year ended 30 June 2002

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Revenue from rendering of services		10,612,973	4,504,299	-	-
Revenue from sale of goods		740,302	1,052,449	-	-
Other revenues from ordinary activities		257,749	778,837	107,720	112,119
Total revenue	3	11,611,024	6,335,585	107,720	112,119
Raw materials and consumables used		(2,321,428)	(1,316,809)	-	-
Direct production costs		(2,666,621)	(2,227,960)	-	-
Employee expenses		(2,560,263)	(2,085,855)	(921,185)	(793,892)
Depreciation and amortisation expenses		(1,209,680)	(1,158,514)	(28,986)	(28,424)
Borrowing costs		(17,716)	(13,181)	(10,535)	(8,375)
Consultants and professional services		(235,045)	(220,893)	(204,713)	(173,544)
Insurance expenses		(171,189)	(156,878)	(99,483)	(71,956)
Property rental and site costs		(254,611)	(235,948)	(16,573)	(11,697)
Other expenses from ordinary activities		(746,919)	(578,094)	(301,657)	(1,005,558)
Profit/(loss) from ordinary activities before related income tax expense	4	1,427,552	(1,658,547)	(1,750,598)	(1,981,327)
Income tax (expense)/benefit relating to ordinary activities	6	-	-	-	-
Net profit/(loss) attributable to members of the parent entity		1,427,552	(1,658,547)	(1,750,598)	(1,981,327)
Basic and diluted earnings/(loss) per ordinary share	8	0.710	(0.958)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 18 to 53.

Hydromet Corporation Limited and its controlled entities
Statements of financial position
as at 30 June 2002

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Current assets					
Cash assets	9	6,776,781	2,165,617	6,385,623	1,217,998
Receivables	10	1,968,949	1,115,228	289,855	42,231
Inventories	12	233,933	217,450	-	-
Total current assets		8,979,663	3,498,295	6,675,478	1,260,229
Non-current assets					
Receivables	10	-	-	5,837,692	8,351,494
Other financial assets	11	-	-	1,977,971	1,977,971
Property, plant and equipment	13	7,770,105	7,458,518	94,768	76,830
Exploration, evaluation and development expenditure	14	302,199	292,199	-	21,235
Intangible assets	15	1,152,678	1,397,322	-	-
Total non-current assets		9,224,982	9,148,039	7,910,431	10,427,530
Total assets		18,204,645	12,646,334	14,585,909	11,687,759
Current liabilities					
Payables	16	1,635,338	1,568,647	270,139	88,864
Interest-bearing liabilities	17	33,303	26,272	23,765	26,272
Provisions	18	2,131,272	1,867,204	254,176	154,317
Total current liabilities		3,799,913	3,462,123	548,080	269,453
Non-current liabilities					
Interest-bearing liabilities	17	96,766	7,715	47,839	7,715
Provisions	18	629,201	643,600	34,740	40,430
Loans from controlled entities	31(b)	-	-	3,510,969	2,893,599
Total non-current liabilities		725,967	651,315	3,593,548	2,941,744
Total liabilities		4,525,880	4,113,438	4,141,628	3,211,197
Net assets		13,678,765	8,532,896	10,444,281	8,476,562
Equity					
Contributed equity	19	62,946,920	59,228,603	62,946,920	59,228,603
Reserves	20	505,688	505,688	150,000	150,000
Accumulated losses	21	(49,773,843)	(51,201,395)	(52,652,639)	(50,902,041)
Total equity		13,678,765	8,532,896	10,444,281	8,476,562

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 18 to 53.

Hydromet Corporation Limited and its controlled entities

Statements of cash flows
for the year ended 30 June 2002

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Cash flows from operating activities					
Cash receipts in the course of operations		11,555,178	5,551,489	-	-
Cash payments in the course of operations		(9,522,739)	(6,240,005)	(1,597,873)	(1,296,646)
Interest received		114,920	102,942	101,183	71,511
Borrowing costs paid		(17,716)	(13,181)	(10,535)	(8,375)
Net cash provided by/(used in) operating activities	33(b)	2,129,643	(598,755)	(1,507,225)	(1,233,510)
Cash flows from investing activities					
Proceeds from loans to controlled entities		-	-	2,965,840	433,747
Proceeds from sale of non-current assets		102,166	96,108	-	17,272
Proceeds from sale of investments		-	549,446	-	-
Payments for exploration, evaluation and development expenditure		(10,000)	(52,199)	-	(21,235)
Payments for property, plant and equipment		(1,425,046)	(1,111,283)	(46,924)	(56,010)
Net cash (used in)/provided by investing activities		(1,332,880)	(517,928)	2,918,916	373,774
Cash flows from financing activities					
Lease payments		(33,466)	(23,618)	(31,933)	(19,615)
Proceeds from share placements		3,718,317	1,388,900	3,718,317	1,388,900
Proceeds from borrowings		129,550	-	69,550	-
Net cash provided by financing activities		3,814,401	1,365,282	3,755,934	1,369,285
Net increase in cash held		4,611,164	248,599	5,167,625	509,549
Cash at the beginning of the financial year		2,165,617	1,917,018	1,217,998	708,449
Cash at the end of the financial year	33(a)	6,776,781	2,165,617	6,385,623	1,217,998

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 18 to 53.

1 Statement of significant accounting policies

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

(a) Basis of preparation

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

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

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

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

(b) Principles of consolidation

Controlled entities

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

Associates

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

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

Transactions eliminated on consolidation

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

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

1 Statement of significant accounting policies (cont'd)

(c) Revenue recognition

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

Rendering of services

Revenue from rendering services is recognised when the treated material reaches a condition specified in the contract and/or the licence issued by the state environmental protection authority.

Unearned income

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

Sale of goods

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

Interest revenue

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

Sale of non-current assets

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

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

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

Research and development grants

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

(d) Goods and services tax

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

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

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

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

1 Statement of significant accounting policies (cont'd)

(e) Foreign currency

Transactions

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

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

(f) Borrowing costs

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

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

(g) Taxation

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

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

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses are not recorded unless realisation is virtually certain.

1 Statement of significant accounting policies (cont'd)

(h) Acquisitions of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour.

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

Research and development costs

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

Subsequent additional costs

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

Costs that do not meet the criteria for capitalisation are expensed as incurred.

(i) Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(j) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

Trade debtors

Trade debtors to be settled within 60 days are carried at amounts due.

1 Statement of significant accounting policies (cont'd)

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

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

Manufacturing activities

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

Net realisable value

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

(l) Investments

Controlled entities

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

Associates

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

Other companies

Investments in other listed entities are measured at fair value, being quoted market prices at reporting date.

Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

(m) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

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

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

Operating leases

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

1 Statement of significant accounting policies (cont'd)

(n) Exploration, evaluation and development expenditure

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.

(o) Intangibles

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

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

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

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

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

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

Cost versus fair value

Except where specifically stated, non current assets are recorded at the lower of cost and recoverable amount.

1 Statement of significant accounting policies (cont'd)

(q) Depreciation and amortisation

Complex assets

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

Useful lives

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

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

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

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

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

	2002 %	2001 %
Property, plant and equipment		
Buildings and freehold improvements	2.5	2.5
Plant and equipment	13-25	13-25
Office equipment and fixtures	13-27	13-27
Motor vehicles	15-25	15
Leased vehicles and machinery	15-25	15
Intangibles		
Hydroproc process	11	11

(r) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payables are normally settled within 30 days.

1 Statement of significant accounting policies (cont'd)

(s) Employee entitlements

Wages, salaries, annual leave and sick leave

The provision for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on current wage and salary rates and includes related on-costs.

Long service leave

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

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

Employee option plans

Where shares or options are issued to employees as remuneration for past services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in the contributed equity. Shares or options issued to employees pursuant to the Employee Share Option Plan are recorded in contributed equity at the fair value of consideration received, if any.

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

Superannuation plan

The Company and other controlled entities contribute to employee nominated superannuation funds. Contributions are charged against income as they are made.

(t) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Dividends

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

1 Statement of significant accounting policies (cont'd)

(t) Provisions (cont'd)

Provisions for disposal of residues and site clean up

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

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

(u) Derivatives

It is the consolidated entity's policy not to use derivative financial instruments to hedge cash flows subject to interest rate, foreign exchange rate and commodity price risks. These risks are monitored and managed closely on a daily basis in order to minimise the exposures of the consolidated entity.

2 Change in accounting policy

(a) Provisions

The consolidated entity has applied AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* (issued October 2001) for the first time from 1 July 2001.

AASB 1044 requires dividends to be recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of that financial year.

No dividends were declared in the previous financial year. As a result, no adjustment is required to the financial report.

Since 30 June 2002, the directors declared dividends totalling $403,450. Refer to Note 7.

(b) Earnings per share

The consolidated entity has applied the revised AASB 1027 *Earnings Per Share* (issued June 2001) for the first time from 1 July 2001.

Basic and diluted earnings per share ("EPS") for the comparative period ended 30 June 2001 have been adjusted so that the basis of calculation used is consistent with that of the current period.

Basic earnings per share

Basic EPS earnings are now calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share

Diluted EPS earnings are now calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares now includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

As at 30 June 2002, there were no dilutive potential ordinary shares on issue.

		Consolidated		The Company	
		2002	2001	2002	2001
		$	$	$	$
3	**Revenue from ordinary activities**				
	Rendering of services revenue from operating activities	10,612,973	4,504,299	-	-
	Sale of goods revenue from operating activities	740,302	1,052,449	-	-
	Other revenue:				
	From operating activities				
	n Interest received from unrelated parties	114,920	102,942	101,183	71,511
	n Research and development grant	-	22,430	-	22,430
	From outside operating activities				
	n Gross proceeds on sales of property, plant and equipment	102,166	96,108	-	17,272
	n Gross proceeds on sale of investment	-	549,446	-	-
	n Other	40,663	7,911	6,537	906
	Total other revenue	257,749	778,837	107,720	112,119
	Total revenue from ordinary activities	11,611,024	6,335,585	107,720	112,119
4	**Profit/(loss) from ordinary activities before income tax expense**				
	Profit/(loss) from ordinary activities before income tax expense/(benefit) has been arrived at after charging/(crediting) the following items:				
	Cost of goods sold	173,530	665,649	-	-
	Borrowing costs paid or payable in respect to:				
	n finance leases	8,543	4,872	6,015	4,025
	n financial institutions	8,469	6,136	4,520	4,350
	n others	704	2,173	-	-
		17,716	13,181	10,535	8,375

	Consolidated		The Company	
	2002	2001	2002	2001
	$	$	$	$

4 Profit/(loss) from ordinary activities before income tax expense (cont'd)

	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Depreciation of:				
n buildings and freehold improvements	79,588	75,985	-	-
n plant and equipment	834,645	789,986	-	-
n office equipment and fixtures	9,737	8,080	5,475	4,161
n motor vehicles	16,447	22,420	7,313	6,113
Amortisation of:				
n intangibles	244,644	243,893	-	-
n leased vehicles and machinery	24,619	18,150	16,198	18,150
	1,209,680	1,158,514	28,986	28,424
Net expense from movements in provision for:				
n employee entitlements	136,448	60,942	94,169	37,050
n disposal of residues	113,221	(40,122)	-	-
Operating lease rental expense	137,412	130,218	6,015	7,917
Research and development expenses	8,333	120	-	-
Net foreign exchange loss	80,430	9,328	62,207	739
Net loss/(gain) on sales of property, plant and equipment	46,258	(26,078)	-	(8,123)
Net gain on sale of investment	-	(260,371)	-	-
Provision for diminution in investments (written back)/provided	-	(289,075)	186,567	767,840

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $

5 Auditors' remuneration

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Audit services					
Auditors of the Company - KPMG					
n Audit and review of the financial reports		57,551	35,500	8,245	5,000
n Other regulatory audit services		1,909	-	900	-
		59,460	35,500	9,145	5,000
Other services					
Auditors of the Company – KPMG					
n Taxation services		8,190	14,100	3,032	5,220
KPMG related practices					
n Legal services		7,680	-	7,680	-
		75,330	49,600	19,857	10,220

6 Taxation

(a) *Income tax expense*

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Prima-facie income tax expense/(benefit) calculated at 30% (2001: 34%) on the profit/(loss) from ordinary activities		428,266	(563,906)	(525,179)	(673,651)
Increase/(decrease) in income tax expense/(benefit) due to:					
n non deductible depreciation and amortisation		97,270	108,757	-	-
n non deductible/(assessable) diminution in value of investments		-	(168,448)	55,970	261,066
n other non-deductible/(assessable) items		(13,740)	(63,099)	(14,010)	964
		511,796	(686,696)	(483,219)	(411,621)
Tax effect of losses not taken to account		-	686,696	-	411,621
Recovery of tax losses not previously brought to account		(511,796)	-	-	-
Tax losses transferred for nil consideration		-	-	483,219	-
		-	-	-	-

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $

6 Taxation (cont'd)

(b) Future income tax benefit not taken to account

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain	1(g)	1,527,900	2,039,696	491,377	974,596

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

- the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

7 Dividends

Type	Cents per share	Total amount $	Date of payment	Tax rate for franking credit	Percentage franked
Since the end of the financial year, the directors declared the following dividend:					
Final – ordinary	0.15	403,450	25 October 2002	30%	100%

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2002 and will be recognised in subsequent financial reports, refer to Note 2(a).

7 Dividends (cont'd)

	The Company	
	2002 $	2001 $
Dividend franking account		
30% franking credits available to shareholders of HydroMet Corporation Limited for subsequent financial years	7,909,425	1,963,324

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

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

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

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than after tax profits.

As a result the "franking credits available" were converted from $7,909,425 to $ 3,389,754 as at 1 July 2002.

This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

8 Earnings per share

Classification of securities as ordinary shares

The Company has one category of ordinary shares included in basic earnings per share.

Classification of securities as potential ordinary shares

Options outstanding in relation to the acquisition of the Stanton Prospect are not considered potential ordinary shares and have not been included in diluted earnings per share. Refer to Note 14(a).

Diluted EPS is the same as basic EPS as there are no potential ordinary shares on issue that are dilutive.

Earnings reconciliation

	Consolidated	
	2002	2001
	$	$
Net profit/(loss)	1,427,552	(1,658,547)
Basic earnings/(loss)	1,427,552	(1,658,547)
	No.	No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share	201,154,077	173,223,437

	Consolidated		The Company	
	2002	2001	2002	2001
	$	$	$	$
9 Cash assets				
Cash at bank and on hand	548,698	717,712	157,540	82,997
Bank short term deposits	6,228,083	1,447,905	6,228,083	1,135,001
	6,776,781	2,165,617	6,385,623	1,217,998

The bank short term deposits mature within 75 days and pay interest at a weighted average rate of 4.9% (2001: 4.8%) at 30 June 2002.

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
10 Receivables					
Current					
Trade debtors		931,457	896,893	-	-
Provision for doubtful trade debtors		(698)	(18,747)	-	-
		930,762	878,146	-	-
Sundry debtors		1,038,187	237,082	289,855	42,231
		1,968,949	1,115,228	289,855	42,231
Non-current					
Loans to controlled entities		-	-	31,574,840	33,902,075
Provision for doubtful debts		-	-	(25,737,148)	(25,550,581)
	31(b)	-	-	5,837,692	8,351,494
Loans to associated company	24	194,510	194,510	194,510	194,510
Provision for doubtful debts		(194,510)	(194,510)	(194,510)	(194,510)
		-	-	-	-
		-	-	5,837,692	8,351,494

Other debtor amounts generally arise from transactions outside the usual operating activities of the consolidated entity.

11 Other financial assets

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Non-current					
Investments in controlled entities – unlisted shares at cost	22	-	-	13,287,558	13,287,558
Provision for diminution in investment		-	-	(11,309,587)	(11,309,587)
		-	-	1,977,971	1,977,971
Investment in associate – unlisted shares at cost	24	1,108,852	1,108,852	-	-
Provision for diminution in investment		(1,108,852)	(1,108,852)	-	-
		-	-	-	-
		-	-	1,977,971	1,977,971

	Consolidated		The Company	
	2002 $	2001 $	2002 $	2001 $

12 Inventories

Current				
n Raw materials and stores - at cost	125,677	132,680	-	-
n Work in progress - at cost	87,762	17,457	-	-
n Finished goods - at cost	20,494	67,313	-	-
	233,933	217,450	-	-

13 Property, plant and equipment

Freehold land – at cost	1,794,580	1,794,580	-	-
Buildings and freehold improvements – at cost	3,239,160	3,090,261	-	-
Accumulated depreciation	(525,300)	(445,712)	-	-
	2,713,860	2,644,549	-	-
Plant and equipment - at cost	14,582,080	13,888,463	-	-
Accumulated depreciation	(11,514,613)	(10,995,711)	-	-
	3,067,467	2,892,752	-	-
Office equipment and fixtures - at cost	200,955	190,027	132,836	125,911
Accumulated depreciation	(175,047)	(165,310)	(117,445)	(111,969)
	25,908	24,717	15,391	13,942
Motor vehicles - at cost	79,066	113,716	48,744	48,744
Accumulated depreciation	(37,745)	(51,663)	(11,663)	(4,350)
	41,321	62,053	37,081	44,394
Leased vehicles and machinery - at cost	250,550	186,226	161,000	121,000
Accumulated amortisation	(123,581)	(146,359)	(118,704)	(102,506)
	126,969	39,867	42,296	18,494
Total property, plant and equipment net book value	7,770,105	7,458,518	94,768	76,830

	Consolidated		The Company	
	2002 $	2001 $	2002 $	2001 $

13 Property, plant and equipment (cont'd)

Reconciliations

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

	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Freehold land				
Carrying amount at beginning and end of year	1,794,580	1,794,580	-	-
Buildings and freehold improvements				
Carrying amount at beginning of year	2,644,549	2,697,773	-	-
Additions	148,899	22,761	-	-
Depreciation	(79,588)	(75,985)	-	-
Carrying amount at end of year	2,713,860	2,644,549	-	-
Plant and equipment				
Carrying amount at beginning of year	2,892,752	2,727,281	-	-
Additions	1,135,669	1,038,305	-	-
Disposals	(126,309)	(71,435)	-	-
Depreciation	(834,645)	(801,399)	-	-
Carrying amount at end of year	3,067,467	2,892,752	-	-
Office equipment and fixtures				
Carrying amount at beginning of year	24,717	25,507	13,942	10,039
Additions	10,928	8,064	6,924	8,064
Disposals	-	(774)	-	-
Depreciation	(9,737)	(8,080)	(5,475)	(4,161)
Carrying amount at end of year	25,908	24,717	15, 391	13,942

	Consolidated		The Company	
	2002	2001	2002	2001
	$	$	$	$

13 Property, plant and equipment (cont'd)

Motor vehicles				
Carrying amount at beginning of year	62,053	52,756	44,394	11,710
Additions	-	47,946	-	47,946
Disposals	(4,285)	(11,098)	-	(9,150)
Transfers to leased vehicles	-	(13,906)	-	-
Depreciation	(16,447)	(13,645)	(7,313)	(6,112)
Carrying amount at end of year	41,321	62,053	37,081	44,394
Leased vehicles and machinery				
Carrying amount at beginning of year	39,867	52,886	18,494	36,644
Additions	129,550	-	40,000	-
Disposals	(17,829)	-	-	-
Amortisation	(24,619)	(26,925)	(16,198)	(18,150)
Transfers from motor vehicles	-	13,906	-	-
Carrying amount at end of year	126,969	39,867	42,296	18,494

Current valuations

An independent valuation was carried out on 28 June 2000 by Mr JR Harrington AAPI Certified Practising Valuer on the land and buildings located at Tomago, NSW. The valuation was made on "market value" basis. The directors are of the opinion that this basis provides a reasonable estimate of recoverable amount. The property was valued at $1,100,000, $90,753 above its net book value.

An independent valuation was carried out on 30 June 2002 by Mr WG Bramall, FAPI, AREI on the land and buildings located at Unanderra, NSW. The valuation was made on "specialised assets" basis. Specialised assets are those not normally traded in any market except as part of a total enterprise by reason of this specific design, size, location or other factors. The assessment of specialised owner-occupied assets controlled by the consolidated entity is made on the assumption that the consolidated entity will continue in operation or existence for the foreseeable future. The property was valued at $4,100,000, $600,827 above its net book value.

As land and buildings are recorded at cost, the results of these valuations have not been brought to account.

		Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
14	**Exploration, evaluation and development expenditure**					
	Costs carried forward in respect of an area of interest in the exploration stage:					
	Purchase consideration	(a)	240,000	240,000	-	-
	Exploration and evaluation expenditure capitalised		62,199	52,199	-	21,235
			302,199	292,199	-	21,235

(a) Consideration to Chemmet Pty Ltd, a director related entity, for the acquisition of the Stanton Prospect tenement EL8413 located in the Northern Territory granted under the Mining Act 1980 (NT) in accordance with a resolution of members at the Extraordinary General Meeting on 29 September 2000. Consideration for 100% interest in the tenement consisted of:

- 6,000,000 ordinary shares restricted to 8 June 2002, fully paid to 4.0 cents per share which have been released from escrow; and
- 6,000,000 options restricted to 8 June 2002, expiring on 28 August 2003, with an exercise price of 15.0 cents per option which have been released from escrow.

The options may only be exercised by the option holder, Chemmet Pty Ltd during the exercise period if:

- the consolidated entity resolves to mine the Stanton Prospect;
- Stanton Prospect is sold by the consolidated entity; or
- there is a change in control of the Company.

There are no voting rights attached to the options and the options do not entitle the holder to participate in any share issue of the Company. Upon conversion the issued ordinary shares will rank equally with all ordinary shares on issue.

15 Intangible assets

	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Hydroproc process - at cost	2,217,323	2,217,323	-	-
Accumulated amortisation	(1,064,645)	(820,001)	-	-
	1,152,678	1,397,322	-	-

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

16 Payables

	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Current				
Trade creditors	786,986	715,494	225,641	22,763
Other creditors and accruals	691,500	584,288	44,498	66,101
Unearned income	156,852	268,865	-	-
	1,635,338	1,568,647	270,139	88,864

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $

17 Interest bearing liabilities

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Current					
Lease liabilities	23	33,303	26,272	23,765	26,272
Non-current					
Lease liabilities	23	96,766	7,715	47,839	7,715

Apart from finance leases and insurance financing, the consolidated entity has no other financial arrangements with any parties as at balance date.

Finance lease facility

The consolidated entity's lease liabilities are secured by the leased assets of $126,969 (2001: $39,867), as in the event of default, the assets revert to the lessor.

18 Provisions

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Current					
Employee entitlements	25	399,676	248,829	254,176	154,317
Disposal of residues	26(a)	1,731,596	1,618,375	-	-
		2,131,272	1,867,204	254,176	154,317
Non-current					
Employee entitlements	25	69,201	83,600	34,740	40,430
Site clean up	26(a)	560,000	560,000	-	-
		629,201	643,600	34,740	40,430

19 Contributed equity

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Share capital					
268,972,402 (2001: 183,015,218) ordinary shares, fully paid	(a)	62,946,920	58,988,603	62,946,920	58,988,603
Nil (2001: 6,000,000) ordinary shares restricted, fully paid	14(a)	-	240,000	-	240,000
		62,946,920	59,228,603	62,946,920	59,228,603

(a) Ordinary shares

Movements during the year

	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Balance at the beginning of year	59,228,603	57,599,703	59,228,603	57,599,703
Shares issued				
n 43,957,184 (2001: Nil) for cash issued under Share Purchase Plan	2,197,859	-	2,197,859	-
n 36,000,000 (2001: 34,000,000) for cash issued by private placement to professional investors	1,800,000	1,462,000	1,800,000	1,462,000
n transaction costs arising from issues for cash	(279,542)	(73,100)	(279,542)	(73,100)
Balance at end of year	62,946,920	58,988,603	62,946,920	58,988,603

Terms and conditions

Ordinary shares

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

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

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

Options

On allotment the shares will be fully paid up to the exercise price and will rank equally with all other fully paid ordinary shares. Refer to Note 14(a).

	Consolidated		The Company	
	2002 $	2001 $	2002 $	2001 $

20 Reserves

General reserve	150,000	150,000	150,000	150,000
Asset revaluation reserve	355,688	355,688	-	-
Total reserves	505,688	505,688	150,000	150,000

Nature and purpose of reserves

General

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

Asset revaluation

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

21 Accumulated losses

Accumulated losses at beginning of year	(51,201,395)	(49,542,848)	(50,902,041)	(48,920,714)
Net profit/(loss) attributable to members of the parent entity	1,427,552	(1,658,547)	(1,750,598)	(1,981,327)
Accumulated losses at end of year	(49,773,843)	(51,201,395)	(52,652,639)	(50,902,041)

22 Particulars in relation to controlled entities

Name	Note	Consolidated entity interest 2002 %	2001 %
Parent entity			
HydroMet Corporation Limited			
Controlled entities			
n HydroMet Operations (Southern) Limited	(i)	100	100
n HydroMet Technologies Pty Limited		100	100
n HydroMet Operations (NT) Pty Limited	(i)	100	100
n HydroMet Operations (Tasmania) Pty Limited	(i)	100	100
n Mineral Estates Pty Limited		100	100
Subsidiaries of which are:			
- MinMet Operations Pty Limited		100	100
- Kia Pacific Gold Pty Limited		100	100
n HydroMet Operations Limited	(i)	100	100
Subsidiary of which is:			
- Enviromet Operations Pty Limited	(i)	100	100
n MinMet Unit Trust	(ii)	100	100

Notes

(i) refer to note 35 for details of Deed of Cross Guarantee.

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

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $

23 Commitments

Operating lease expense commitments
Future operating lease commitments not provided for in the financial statements and payable:

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
n within one year		120,000	120,000	-	-

The consolidated entity leases property under an operating lease expiring annually. The lease provides the consolidated entity with a right of renewal at which time all terms are renegotiated.

Finance lease payment commitments
Finance lease commitments are payable:

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
n within one year		46,945	28,310	30,419	28,310
n one year or later and no later than five years		119,164	7,864	57,188	7,864
		166,109	36,174	87,607	36,174
Less: Future lease finance charges		(36,040)	(2,187)	(16,003)	(2,187)
		130,069	33,987	71,604	33,987
Lease liabilities provided for in the financial statements:					
n Current	17	33,303	26,272	23,765	26,272
n Non-current	17	96,766	7,715	47,839	7,715
Total lease liability		130,069	33,987	71,604	33,987

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

Capital expenditure commitments
Plant and equipment

	Note	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Contracted but not provided for and payable within one year		33,000	-	-	-

24 Investment in associated companies

Interest is held in the following associated company:

Name	Principal activities	Balance date	Ownership interest		Investment carrying amount	
			2002 %	2001 %	2002 $	2001 $
HydroMet (India) Limited	Chemical manufacturer	31 March	23	23	-	-

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

The aggregate amount receivable from HydroMet (India) Limited by the consolidated entity at balance date was $194,510 (2001: $194,510). A doubtful debt provision on the loan of $194,510 has been made. No interest (2001: Nil) has been brought to account in relation to this loan during the year.

25 Employee entitlements

	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Aggregate liability for employee entitlements, including on-costs				
n Current	399,676	248,829	254,176	154,317
n Non-current	69,201	83,600	34,740	40,430
	468,877	332,429	288,916	194,747
The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:				
Assumed rate of increase in wage and salary rates	3.5%	3.5%	3.5%	3.5%
Discount rate	5.6%	5.4%	5.6%	5.4%
Settlement term (years)	10	10	10	10
Number of employees at year end	44	35	9	7

26 Contingent liabilities

(a) Environmental contingent liabilities

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

Provisions have been made in the accounts for the estimated costs of disposal of these by-products on hand at 30 June 2002. Refer Note 18 for provision details. These provisions are sufficient to meet the disposal requirements of current environmental legislation. However, these operations are subject to rapidly changing environmental legislation in various jurisdictions and future obligations to meet changing environmental legislation could involve the consolidated entity in costly work. The directors are not aware of any impending changes to the requirements or of any current breaches of legislation which are material in nature.

(b) Deed of Cross Guarantee

Under the terms of a Deed of Cross Guarantee, described in Note 35, 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.

27 Directors' remuneration

	The Company	
	2002	2001
	No	No
Directors' income		
The number of directors of the Company whose income from the Company or any related party falls within the following bands:		
$ 10,000 - $ 19,999	1	-
$ 20,000 - $ 29,999	1	2
$ 30,000 - $ 39,999	2	-
$ 40,000 - $ 49,999	-	1
$160,000 - $169,999	-	1
$180,000 - $189,999	-	1
$190,000 - $199,999	2	-

27 Directors' remuneration (cont'd)

The remuneration bands are not consistent with the emoluments disclosed in the Directors' report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

	Consolidated		The Company	
	2002	2001	2002	2001
	$	$	$	$
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	473,190	428,300	473,190	428,300

Directors' income includes amounts paid by the Company during the year to indemnify directors, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses insurance contracts, in accordance with common commercial practice.

28 Executives' remuneration

	Consolidated		The Company	
	2002	2001	2002	2001
	No	No	No	No
The number of executive officers of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:				
$160,000 - $169,999	-	2	-	2
$190,000 - $199,999	2	-	2	-
	$	$	$	$
Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is $100,000 or more	383,927	323,910	383,927	323,910

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level.

Executives' remuneration includes amounts paid by the Company during the year to indemnify executives, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses insurance contracts, in accordance with common commercial practice.

The remuneration bands are not consistent with the emoluments disclosed in the Directors' report due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

29 Segment information

The consolidated entity operates in Australia, treating industrial residues using hydrometallurgical processing technology.

30 Events subsequent to balance date

Since 30 June 2002, the directors declared dividends totaling $403,450. Further details are set out in Note 7.

The Company extended its manganese mud filtration service agreement with Pasminco Hobart Smelter in August 2002. The extension is to 31 October 2002 to allow negotiations for renewal to be finalised. Administration continues and at the date of this report we have been advised that operations will be continuing at the Hobart Smelter and filtration services continue to be provided to Pasminco.

31 Related party transactions

(a) Directors

The names of each person holding the position of director of Hydromet Corporation Limited during the financial year are SH Kwan, GW Wrightson, PS Tang, Dr LD Jayaweera, BW O'Neil (retired October 2001) and Mr TR Allen (appointed October 2001).

Details of directors' remuneration are set out in Note 27.

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

Directors' holdings of shares and share options

The interests of directors of the reporting entity and their director-related entities in shares and share options of entities within the consolidated entity at year end are set out below:

	Note	2002 Number held	2001 Number held
HydroMet Corporation Limited:			
Ordinary shares		36,769,250	23,779,250
Ordinary shares restricted	14(a)	-	6,000,000
Options over ordinary shares	14(a)	6,000,000	6,000,000

Directors' transactions in shares and share options

During the year, directors and their director-related entities acquired 5,490,000 ordinary shares and disposed of 400,000 ordinary shares.

During the year eligible directors participated in the Company's Share Purchase Plan ("SPP") dated 1 February 2002. Refer to Note 19(a).

31 Related party transactions (cont'd)

(a) *Directors (cont'd)*

Under the SPP, the following directors being eligible under the SPP were allotted ordinary shares at 5 cents fully paid under the same terms and conditions as all other eligible shareholders:

- Mr LD Jayaweera and director related entities — 120,000 ordinary shares
- Mr GW Wrightson — 60,000 ordinary shares
- Mr PS Tang — 60,000 ordinary shares
- Mr TR Allen and director related entities — 120,000 ordinary shares

Directors' transactions with the Company or its controlled entities

Refer to Note 14(a).

(b) *Wholly-owned group*

Details of interests in wholly-owned controlled entities are set out at Note 22. Details of dealings with these entities are set out below:

Loans

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

		The Company	
	Note	2002 $	2001 $
Non-current			
Loans receivable	10	5,837,692	8,351,494
Loans payable		3,510,969	2,893,599

Loans receivable

	2002 $	2001 $
Balance at the beginning of year	8,351,494	8,563,113
Decrease in loans to controlled entities	(2,513,802)	(211,619)
Balance at the end of year	5,837,692	8,351,494

Loans payable

	2002 $	2001 $
Balance at the beginning of year	2,893,599	2,903,124
Increase/(decrease) in loans from controlled entities	617,370	(9,525)
Balance at the end of year	3,510,969	2,893,599

31 Related party transactions (cont'd)

(c) Non-director related parties

The classes of non-director related parties are:

- wholly owned controlled entities (refer Note 31(b));
- associates (refer Note 11); and
- directors of related parties and their director related entities (refer Note 31(a)).

Transactions

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

32 Additional financial instruments disclosure

(a) Interest rate risk

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

	Note	Weighted avg interest rate	Floating interest rate	Fixed interest maturing in:		Non-interest bearing	Total
				1 year or less	1 to 5 years		
			$	$	$	$	$
2002							
Financial assets							
Cash	33(a)	4.9%	6,228,083	-	-	548,698	6,776,781
Receivables	10		-	-	-	1,968,949	1,968,949
			6,228,083	-	-	2,517,647	8,745,730
Financial liabilities							
Payables	16		-	-	-	1,635,338	1,635,338
Lease liabilities	17,23	8.5%	-	33,303	96,766	-	130,069
			-	33,303	96,766	1,635,338	1,765,407
2001							
Financial assets							
Cash	33(a)	4.8%	1,447,905	-	-	717,712	2,165,617
Receivables	10	-	-	-	-	1,115,228	1,115,228
			1,447,905	-	-	1,832,940	3,280,845
Financial liabilities							
Payables	16	-	-	-	-	1,568,647	1,568,647
Lease liabilities	17,23	9.2%	-	26,272	7,715	-	33,987
			-	26,272	7,715	1,568,647	1,602,634

32 Additional financial instruments disclosure (cont'd)

(b) Credit risk

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

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

- Rio Tinto Technical Services 35%
- Falconbridge Europe SA 25%

(c) Net fair values of financial assets and liabilities

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

33 Notes to the statements of cash flows

(a) Reconciliation of cash

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

		Consolidated		The Company	
		2002 $	2001 $	2002 $	2001 $
Cash assets		548,698	717,712	157,540	82,997
Short term deposits	(i)	6,228,083	1,447,905	6,228,083	1,135,001
Total cash held		6,776,781	2,165,617	6,385,623	1,217,998

(i) Security over cash

A term deposit for $250,000 has been issued as security in respect of a bank guarantee issued to a customer of the consolidated entity.

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

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

	Consolidated 2002 $	Consolidated 2001 $	The Company 2002 $	The Company 2001 $
Profit/(loss) from ordinary activities after income tax	1,427,552	(1,658,547)	(1,750,598)	(1,981,327)
Add/(less) non-cash items:				
n Amortisation	269,263	262,043	16,198	18,150
n Depreciation	940,417	915,369	12,788	10,274
n Diminution in value of investments	-	(289,075)	186,567	767,840
Add/(less) items classified as investing/financing activities:				
n Profit on sale of investment	-	(260,371)	-	-
n Loss/(profit) on sales of property, plant and equipment	46,258	(26,078)	-	(8,123)
Net cash provided by/(used in) operating activities before changes in assets and liabilities	2,683,490	(1,056,659)	(1,535,045)	(1,193,186)
Changes in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
n Increase in inventories	(16,483)	(7,045)	-	-
n Increase in receivables	(853,721)	(26,272)	(247,624)	(6,964)
n Increase/(decrease) in payables	66,689	470,401	181,275	(70,410)
n Increase in provisions	249,668	20,820	94,169	37,050
Net cash provided by/(used in) operating activities	2,129,643	(598,755)	(1,507,225)	(1,233,510)

34 Economic dependency

The Company and consolidated entity earns the majority of its revenue through the application of its Hydroproc technologies in discrete projects performed under contract. A prerequisite to the majority of these applications is approval from the relevant State Governments' Environmental Protection Agency (EPA). Due to the nature of treating industrial residues the Company must obtain EPA approval for some specific processes utilised. Without appropriate approval these projects would be significantly restricted. Such approvals are only granted after the EPA carries out rigorous examination of the submission.

To date Hydromet has been successful in obtaining six specific approvals for treatment technologies developed by the Company.

In the 2001/2002 financial year waste treatment fees comprised 91% of total operating revenues earned with recycled product sales comprising the balance.

The Company earned these treatment fees from four major clients:

- Rio Tinto Technical Services 72%;
- Falconbridge Europe SA 17%;
- Pasminco 5%;
- BHP Port Kembla 4%; and
- Other 2%.

35 Deed of cross guarantee

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

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

The subsidiaries subject to the Deed are:

- HydroMet Operations Limited;
- HydroMet Operations (Southern) Limited;
- HydroMet Operations (Tasmania) Pty Limited;
- HydroMet Operation (NT) Pty Limited; and
- Envirornet Operations Pty Limited.

A consolidated statement of financial performance and consolidated statement of financial position, comprising the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2002 is set out on the following page.

35 Deed of cross guarantee (cont'd)

	Consolidated 2002 $	Consolidated 2001 $
Statement of financial performance		
Profit/(loss) from ordinary activities before related income tax expense	562,976	(2,125,529)
Income tax expense relating to ordinary activities	-	-
Profit/(loss) from ordinary activities after related income tax expense	562,976	(2,125,529)
Accumulated loss at beginning of the year	(51,516,735)	(49,391,206)
Accumulated loss at the end of the year	(50,953,759)	(51,516,735)
Statement of financial position		
Cash assets	6,752,424	2,129,999
Receivables	1,274,518	1,001,309
Inventories	100,205	132,731
Total current assets	8,127,147	3,264,039
Receivables	1,317,760	1,576,918
Investments	1,662,277	1,662,277
Property, plant and equipment	6,012,324	5,648,705
Exploration, evaluation and development expenditure	-	21,235
Intangibles	1,152,678	1,397,322
Total non-current assets	10,145,039	10,306,457
Total assets	18,272,186	13,570,496
Accounts payable	1,238,300	1,147,981
Interest bearing liabilities	33,303	26,272
Provisions	1,760,193	1,483,296
Total current liabilities	3,031,796	2,657,549
Interest bearing liabilities	96,766	7,715
Provisions	59,470	74,079
Other liabilities	2,585,306	2,613,598
Total non-current liabilities	2,741,542	2,695,392
Total liabilities	5,773,338	5,352,941
Net assets	12,498,848	8,217,555
Contributed equity	62,946,920	59,228,603
Reserves	505,687	505,687
Accumulated losses	(50,953,759)	(51,516,735)
Total equity	12,498,848	8,217,555

Directors' declaration

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

(a) the financial statements and notes, set out on page 15 to 53, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

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

2 There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 35 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 subsidiaries pursuant to ASIC Class Order 98/1418.

Dated at Wollongong this 30th day of September 2002.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

KPMG

Independent audit report to the members of Hydromet Corporation Limited

Scope

We have audited the financial report of HydroMet Corporation Limited ("the Company") for the financial year ended 30 June 2002, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 35, and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of HydroMet Corporation Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on that date; and

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

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Chris Hollis
Partner

Wollongong
30 September 2002

ASX additional information

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

Shareholdings (as at 23 September 2002)

Substantial shareholders

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

Shareholder	Ordinary
JP Morgan Nominees Australia	19,075,004

Voting rights

Ordinary shares

As at 23 September 2002 there were 2,697 holders of the ordinary shares of the Company. Refer to Note 19.

Options

Refer to Note 19.

Distribution of equity security holders

	Number of equity security holders	
Category	Ordinary shares	Options
1 - 1,000	317	-
1,001 - 5,000	425	-
5,001 - 10,000	265	-
10,001 - 100,000	1,286	-
100,001 and over	404	1
	2,697	1

The number of shareholders holding less than a marketable parcel is 877.

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	JP Morgan Nominees	19,075,004	7.09
2	CHEMMET Pty Limited	10,250,000	3.81
3	Mr Ian Brooker Drummond	10,000,000	3.72
4	Harreson Company Limited	8,500,000	3.16
5	Citicorp Nominees Pty Limited	7,518,400	2.80
6	Wing Mei Lee	5,310,859	1.97
7	Twynam Commodities Pty Limited	5,000,000	1.86
8	Linkenholt Pty Limited	4,650,000	1.73
9	Mr Lakshman Jayaweera	4,198,250	1.56
10	Lost Ark Nominees Pty Limited	3,723,782	1.38
11	Leet Investments Pty Limited	3,581,354	1.33
12	Wightholme Nominees Pty Ltd	3,500,000	1.30
13	Igera Pty Limited	2,800,000	1.04
14	Twynam Commodities Pty Ltd	2,500,000	0.93
15	TSN Pty Ltd	2,250,000	0.84
16	ANZ Nominees Limited	2,069,000	0.77
17	Lenuat Pty Ltd	2,000,000	0.74
18	Elroa Nominees Pty Ltd	1,920,000	0.71
19	Penswood Pty Ltd	1,787,450	0.66
20	Aberon Pty Ltd	1,785,892	0.66
		102,420,021	38.06

Unquoted equity securities

Options

Chemmet Pty Ltd, a director related entity holds 6,000,000 options over ordinary shares, representing 100% of the total on issue. Refer to Note 14(a) and Note 31(a).